Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Report on the International Conference organized by the Government of Canada and the Organisation for Economic Co-operation and Development, Ottawa, Canada, 2-3 December, 1996.

Gordon Betcherman, Conference Rapporteur

Table of Contents

- Foreword
- Note from Conference Host
- Acknowledgements
- Executive Summary
- Changing Workplace Strategies: Achieving Better Outcomes for Enterprises, Workers, and Society
- Workplace Change: A Synthesis of the Evidence
- Diffusing "Best Practice" Workplace Innovation
- Priorities for Governments
- Conclusion
- Endnotes
- References
- Appendix 1
- Appendix 2

This report was prepared by Dr. Gordon Betcherman, Canadian Policy Research Networks, and Ekos Research Associates, under guidance from Human Resources Development Canada and the Organisation for Economic Co-operation and Development.

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Foreword

This report discusses the findings of the international conference, "Changing Workplace Strategies: Achieving Better Outcomes for Enterprises, Workers, and Society", organized by the Government of Canada and the Organisation for Economic Co-operation and Development at the Château Laurier, Ottawa, 2-3 December, 1996.

The conference was organized as part of the follow-up to the OECD Jobs Study, which examined the relationship between productivity, technology, and employment. The conference covered four main areas:

- how human resource management and organizational practices in the workplace can both increase productivity and contribute to an equitable sharing of productivity gains;
- impediments to the introduction of innovative and durable workplace practices;
- mechanisms to encourage more widespread adoption of innovative practices;
- the roles of employers and workers in fostering productivity and promoting the quality of working life, and the role of public policy in supporting these changes.

This report focuses primarily on the public policy implications of the conference discussions. One of the central conclusions from the conference is that workplace change, if it is to be successfully successfully implemented and sustained, requires a permanent dialogue among employers, individuals, and public authorities.

It is our hope that this report will help inform and advance that dialogue.

T.J. Alexander
OECD Director for
Education, Labour, and
Social Affairs

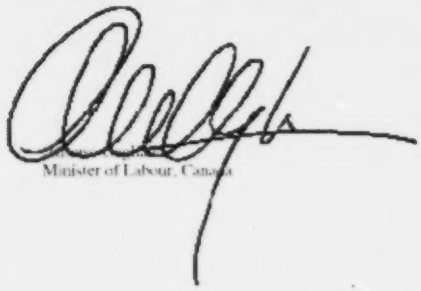
R. Nezu
OECD Director for
Science, Technology,
and Industry

Table of Contents

Note from Conference Host

It was a great pleasure to host the tripartite conference on "Changing Workplace Strategies: Achieving Better Outcomes for Enterprises, Workers, and Society" in Canada. The Canadian

government endorses the importance of the issues the conference addressed for all of the stake-holders in the workplace and, indeed, for society. We hope that this volume on the conference, published in conjunction with the Organisation for Economic Co-operation and Development, will support future discussions and policy deliberations on workplace issues. I wish the OECD every success in further endeavours to support member countries in this respect.



Minister of Labour, Canada

Table of Contents

Acknowledgements

The Changing Workplace Strategies Conference and the compilation of this report are the result of splendid team work by many people. We would particularly like to acknowledge: the outstanding organizational and administrative support provided by Donald Wilson and Louise Blanchard and their team (Louise Legault, Jeannine Pelletier, Shirley Sirois, Iain Tyrell, and Marie Nixon); the notetakers who ably captured the wisdom of conference participants in workshops and focus groups (Darren Lauzon, Philippe Massé, Kelly Morrison, Gay Stinson, Karen Corkery, and Barbara Jordon); the principal organizers of the conference (Graham Vickery and Greg Wurzburg of the OECD, and Valerie Clements and Jean-Pierre Voyer of HRDC); the many chairs, experts, and discussants for the workshops and focus groups, whose names appear in appendices 1 and 2; and Gordon Betcherman, Conference Rapporteur and principal author of the conference report.

Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Changing Workplace Strategies:

Achieving Better Outcomes For Enterprises, Workers, and Society

Executive Summary

In December 1996, the OECD and the Canadian Government co-hosted an international conference on changing organizational and workplace strategies. The context for this conference, and the OECD research programme that preceded it, is the growing recognition that organizational innovation can make important contributions to a range of macro objectives, including productivity growth, employment, and income distribution. Integrating the proceedings of the conference with the research literature, this report synthesizes the analytical evidence on workplace change and considers how org anizational innovation can be diffused more broadly.

Competitive pressures, technological change, and shifting consumer preferences have forced many enterprises to rethink traditional organizational strategies and practices. The main thrust of the resulting workplace reorganization has been to enhance the flexibility of the enterprise both in terms of how it organizes its internal operations and how it interacts with external markets. Flexible organizations can adopt a wide range of strategies, structures, and practices, including, for example, job redesign and multi-skilling, skill upgrading and extensive training, delayering, horizontal communication, performance incentives, the use of nonstandard employment, and outsourcing and subcontracting . There is no single recipe, however, describing how firms have tried to increase their flexibility. The patterns of organizational change reflect a host of national, sectoral, and enterprise-level factors.

On the basis of national reports from a number of member countries, the OECD estimates that one-quarter of all enterprises have now adopted a flexible organizational system of one form or another. In general, adoption rates increase with firm size, the rate of technological change, and the degree of international competition. Flexible strategies and practices appear to be most prevalent in manufacturing; however, it is now becoming evident that similar changes are occurring in much of the service sector as well.

Workplace innovation has been shown to favourably impact on the performance of enterprises by enhancing organizational adaptability and by expanding the contribution of intangible assets, including human resources. It is reasonable to assume that these changes have also had an aggregate effect on productivity and output, to the extent they have diffused throughout national economies. As well, by providing opportunities for highly skilled and rewarding work, and increasing demand for human capital investment, certain forms of workplace change are clearly desirable from the perspective of employees. However, some aspects of organizational change do raise important concerns regarding polarization and economic security.

"Best practice" will vary, depending on the organization and the environment in which it operates. In evaluating organizational change, "efficiency" criteria clearly are important - i.e., knowledge accumulation and innovation that underlie the technological change, productivity gains, and flexibility associated with improving enterprise performance. However, for organizational change to be sustainable, it must incorporate a long-run view of efficiency that includes investing in "intangibles" (e.g., human and organizational capital, technology, software, and market development), providing workers with opportunities to enhance their employability, and offering mechanisms for productivity gains to

be shared.

Various impediments interfere with the diffusion of organizational change and limit the effectiveness of the change that does occur. For the most part, these barriers are associated with investing in intangibles, especially when it comes to human and organizational capital. These problems include market failures (associated with information barriers and externality problems), an economic environment that is in some ways unfavourable, unsupportive institutions and policies, and difficulties inherent in social change.

Management and labour must be the principal agents of change. Employers need to be strategic in a long-run sense, and ready to consider innovations that "fit" well with the emerging business environment, where the accumulation and application of knowledge are key to sound performance. This may involve new information systems that properly account for intangible assets; longer time horizons in order to exploit the potential benefits of intangible investments; and a reconsideration of managerial prerogative and employee input. Labour must also reassess its strategies in a longer-term framework, incorporating a stronger vision of what the goals of workplace reform should be and of how they can be attained.

Governments also have a key role to play, not because of any overriding public interest in what happens in individual workplaces ***per se,*** but because "best practice" at the "micro" level can serve traditional "macro" policy objectives such as productivity growth, employment creation, and income distribution. So governments need to think about how public policy can support the diffusion of organizational innovation - that encourages investment in intangibles, that offers individuals opportunities to enhance their employability, and that contributes to productivity growth while ensuring that gains are shared. Four interconnected policy goals are especially relevant:

- ***Fostering "best practices".*** Policy initiatives intended to foster desired organizational changes should include: the creation and dissemination of information on workplace innovation; the provision of consulting support on organizational change and, more generally, on investing in intangibles; and brokering sectoral or national institutional partnerships.

- ***Supporting lifelong learning.*** There are a number of public policy priorities: providing basic-skills education; supporting efficient human capital development through improved information, counselling, and standard-setting; promoting linkages within the education sector, and between that sector, labour markets, and industry technology diffusion policies; and addressing problems of inequitable access.

- ***Providing economic security.*** Governments must place a high priority on how to provide security in the emerging environment, because old sources have either weakened or become less effective. While it is unclear what the new forms of security will involve, they will almost certainly be based more on enhancing the capacity to change (e.g., through training, portability of benefits, etc.) than on the traditional notion of protection from change.

- ***Refashioning the "social contract".*** Ultimately, governments must provide leadership in brokering social partnerships that lead to a revitalized social contract for the postindustrial era. This type of consensus, which defines how roles, responsibilities, and rewards are distributed across society is stakeholders, is a necessary condition for economic prosperity and social cohesion.

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07

Important Notices

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Gordon Betcherman, Canadian Policy Research Networks and Ekos Research Associates Ottawa, Ontario, CANADA

Introduction

Countries throughout the OECD area are in the midst of a far-reaching economic transition. Loosely characterized as the shift from "industrialism" to "postindustrialism", this transition involves closer integration among national economies, the rise of service- and knowledge-based industries, and the widespread diffusion of information and communication technologies. Together, these developments are altering the nature of economic activity and even the strategic basis for how enterprises compete.

> "We are now in a new economy, with a new set of rules. A key element of this economy is the convergence of different sectors, technologies, and activities. Knowledge generation is another. Working and learning have become the same activity."
>
> ***Don Tapscott, Alliance for Converging Technologies (ACT), Canada***

Industrial restructuring, technological change, and market liberalization offer new economic opportunities and the potential for significant improvements in living standards. Certainly, some of this potential is being realized - witness, for example, the income being generated by "knowledge" industries and the remarkable product and service innovations that are now benefitting consumers throughout the region. Many people across the OECD area are finding their place in the "postindustrial" age and enjoying new levels of material prosperity.

The good news aside, this transition has been dogged by a number of macroeconomic problems that have lingered over the past 10 to 20 years and appear to have intensified in the 1990s. These problems relate to both efficiency and equity concerns and while they have been manifested in somewhat different forms in various countries, they include slow measured productivity growth, persistently high levels of unemployment and/or underemployment, and (in some countries) widening income differentials. It is important to acknowledge that, in recent years, these economic difficulties have edged into the social and political realms, as personal anxiety and insecurity and fears about income polarization and marginalization appear to have become more prominent.

As these trends have persisted, and as they have led to broader concerns about social cohesion and the degree of popular support for the "market-driven" economic agenda, policy debates within the OECD and its member countries have increasingly focused on under standing the challenges involved in spurring productivity growth, supporting job creation, and sharing the benefits of economic growth.

Admittedly, productivity growth, employment creation, and income distribution are traditional macroeconomic objectives. However, the recent debate has been distinctive in that there is a dawning belief that the dynamics underlying each of these objectives, ***and the transmission mechanisms between them***,

are now quite different than they used to be. And, by extension, there is growing recognition that these new dynamics call for significant changes in the economic behaviour of firms and individuals, in the structure of many of our social institutions, and in government policy.[1]

This progression from conventional thinking about productivity, employment, and income distribution to the consideration of potentially new relationships and what constitutes appropriate policy responses has been evident in the work of the OECD itself. Starting with the ***Jobs Study*** (OECD, 1994), the recommendations to encourage productivity and employment growth dealt primarily with traditional "framework" policies such as price stability and flexible external labour markets. The ensuing report, ***Technology, Productivity, and Job Creation*** (OECD, 1996a), progressed to the determinants of growth and how technological knowledge could contribute to productivity and employment. In the ***Flexible Enterprises*** study (OECD, 1997a forthcoming), the focus has sharpened further on the workplace, where the dynamics of "postindustrial" production are being established.

This research programme, then, has converged on the conclusion that macro goals regarding productivity, employment, and income distribution may be served by micro policies that ultimately play out at the level of the enterprise or workplace. Forming the intervening link in this chain are knowledge generation and innovation, which, in one direction, hold the key to economic growth, and in the other, appear to be shaped to an important degree by organizational forces such as strategy, structure, and management practices.

> "So far, our analysis has revealed that many enterprises are indeed changing the way they do business. These changes appear to be beneficial insofar as they are associated with higher productivity, employment growth, and improved financial performance and, at least for some workers, higher wages."
>
> ***Tom Alexander, OECD***

The growing body of organizational-level studies is now working its way into the deliberations of national governments and the OECD. While there are still important information gaps, the results of this research raise a number of policy-relevant issues for governments.

- In the first place, the empirical evidence suggests that wider diffusion of organizational innovations that enhance enterprise flexibility can lead to aggregate efficiency gains. Although the competitive process should encourage the adoption of successful practices over time, the diffusion of organizational innovation faces various obstacles, ranging from market failures relating to "intangible" investments to unsupportive institutional environments.

- At the same time, there are concerns that some of the organizational change that is occurring may have adverse consequences, at least in the short run, for certain segments of the population. This raises questions for policy-makers about how they might encourage the diffusion of organizational innovations that can foster the knowledge creation and technological change which underlie productivity and employment growth, while contributing to a socially sustainable income distribution.

In December 1996, the OECD and the Canadian Government co-hosted an international conference in Ottawa to discuss changing workplace strategies and, in particular, to identify how desirable practices could be more widely diffused.[2] The conference, which involved business, labour, government, and subject specialists, had four goals:

i. To increase our understanding of how human resource management and organizational practices can both increase productivity and contribute to an equitable sharing of productivity gains;

ii. To identify impediments to the introduction of innovative and durable practices; To identify mechanisms to encourage the adoption of these practices; and

iii. To propose how public policy might support these changes.

The basis for the discussions at the conference was an OECD research programme on technological and organizational change and the flexible enterprise that included 10 national studies on changing workplace strategies. These studies will be published in ***Enterprise Flexibility and Workplace Change: National Reports*** (OECD, 1997b forthcoming) and their findings have been integrated in the ***Flexible Enterprises*** document (OECD, 1997a forth-coming).

The purpose of the current report is to extend the consideration of these issues beyond the Ottawa conference. It integrates the main lines of discussion at the conference with the existing research base on changing workplace strategies that has been built up through the OECD programme and elsewhere. In keeping with the agenda of the Ottawa conference, the intention of this paper is to consider how desir-able workplace strategies can be diffused more broadly and, more specifically, to discuss what governments can do to facilitate the diffusion process and to reduce the costs of workplace change.

The next section sets the stage by summarizing the existing evidence on workplace change in OECD countries. It begins with a brief discussion of the key elements of organizational innovation and how the nature of the changes varies across the OECD area. It then synthesizes the existing information on changing practices and their impacts on enterprises, workers, and the external labour market. Section three provides the bridge to the policy discussion by posing three questions: What types of organizational change contribute over the long run to both efficiency and equity objectives? What are the barriers to the diffusion of these changes? And, what are the roles of business and labour in supporting workplace innovation? In the final section, the discussion turns to public policy issues. It begins by sketching out the rationale for a government agenda for the workplace. It then goes on to identify the key areas where public policy can play a role. Finally, it considers the skills governments will need in order to successfully achieve a workplace strategy.

Four main themes emerge from this report:

- First, the workplace is a critical arena, where the equity and efficiency "contours" of the "postindustrial" economy will be drawn. Different types of organizational innovations have different impacts, and while it is certainly not realistic to try to identify universal "best practices", it is possible to identify principles that can jointly serve a range of objectives relating to productivity, employment, and income distribution.

- Second, until now, workplace change that truly supports these objectives in a sustainable fashion has not been widely diffused. Although there is evidence that particular kinds of innovations have had positive impacts on enterprise performance and on job quality and human resource development opportunities for some workers, certain types of changes may have contributed to economic insecurity and labour force polarization.

- Third, there are a number of obstacles to the diffusion of the

kinds of workplace innovation that will support both equity and efficiency goals. Overcoming these obstacles will require concerted efforts on the part of all stakeholders, including employers and workers and their unions.

- Fourth, given the potential of organizational change and the attendant drawbacks of not overcoming the obstacles to diffusion, governments have a key role to play. Most obviously, they must establish the foundation for lifelong learning. As well, framework policies remain important. But ultimately, the challenges of workplace innovation will force governments to face the more complex test of providing leadership in building a revitalized "social contract" for the post-industrial era. While it seems clear that the cornerstones of the industrial-era contract - full employment and the postwar welfare state - have weakened, the shape of the new consensus is still unclear. Certainly, the solution that does emerge will depend on access to education and training, but it will also depend on the reinvention of social insurance and assistance mechanisms that share some of the risk and support the adjustment that is inevitable with ongoing economic change.

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Workplace Change:

A Synthesis Of The Evidence

Increasing competitive pressures, technological change, and shifting consumer preferences have forced enterprises to rethink and often redirect their strategies, their structures, and many aspects of their behaviour. As we will see in this section, this reevaluation process may generate changes that, for the most part, are designed to increase the flexibility of the firm and its ability to adapt to the rapidly shifting business environment. As the precise form that flexibility takes varies from firm to firm, it is not surprising that the diffusion of organizational change has been uneven, complex, and eclectic. This has made it difficult to clearly identify its broader impacts on enterprises, workers, and society. Nevertheless, the research base has been expanding, and with it, our understanding of how workplace change in countries in the OECD area is unfolding.

Understanding Workplace Change

The nature of the organizational changes that are now taking place has been described in some detail in ***Technology, Productivity, and Job Creation*** (OECD, 1996a: chapter 6) and in ***Flexible Enterprises*** (OECD, 1997a forthcoming). Here, we will simply summarize the major features of the changes and then address the evidence on their diffusion and impacts.

"Organizational change" is a broad concept that can include strategic, structural, and behavioural dimensions. In large enterprises, in particular, organizational change is often a very complex phenomenon occurring at multiple layers, with strategic and sometimes structural innovations disseminating from the corporate level, and work reorganization and new human resource practices aimed at behavioural change being initiated at the establishment level. Organizational change is often referred to as "workplace change", but in a sense this is a misnomer. The strategic dimension may well originate outside the workplace in question and, in many organizations, it is this dimension that shapes the structural and behavioural innovations that are observed in the workplace.

A simple framework for our discussion of organizational change and its impacts is shown in Figure 1. The starting point is the environment in which the enterprise operates. We have already noted that shifts in this environment - especially in terms of markets and technology - are providing the impetus for much of the organizational change. In response, enterprises in all sectors are rethinking longstanding strategies and practices. The environmental change itself, however, does not mechanistically dictate the nature of the organizational changes that occur. Employers and other stakeholders make strategic choices about how to respond to the environment - managers formulate business strategies, choose production technolcgies, and (in some cases with employee representation) establish the underlying principles of work organization and human resource management. The reality has been that much of the recent innovation has been driven by strategic decisions on the part of employers, with labour having a lesser role. Finally, the strategies, structures, and behaviours that define the organizational change have a range of impacts on

the enterprise, employees and their unions, and, at a more aggregate level, the labour market and society.

In all countries in the OECD area, the thrust of recent changes in organizational strategy and workplace practices has been to enhance enterprise flexibility and adaptability to rapidly changing conditions. There has been considerable variation in how firms have tried to achieve this. Several years ago, the OECD (1986, 1989) characterized two broad types of flexibility strategies. One is designed to enhance "numerical" flexibility, which refers to the ability of firms to vary labour inputs by hiring and laying off employees, altering hours of work, using part-time and contract workers, and subcontracting or outsourcing work. The other involves "functional" flexibility, which involves the capacity to reorganize how work is carried out within the enterprise using, for example, less hierarchical structures, more fluid job designs, multi-tasking and multi-skilling, and self-managed, multi-functional teams. As these examples indicate, flexibility strategies can be internally-oriented (i.e., involving employees, the organizational structure, and the work process) or externally-oriented (i.e., involving relationships between the firm and external markets).

Figure 1: Framework for Considering Organizational/Workplace Change

Environment	Strategic Choices by:	Structures and Behaviours	Outcomes for:

• Markets
• Technology
• Labour Force
• Socio-cultural Context
	• Enterprise re:
	  • Competition
	  • Technology
	  • HR/IR
	  • Union
		• Work Organization
		• HR Practices
		• IR Practices
			• Enterprises
			• Workers
			• Labour Market
			• Society

Public Policy and Institutional Framework			

> "Organization strategies are leading to new forms of work organizations based on higher and more diversified skills, more horizontal communications among employees, and more widely distributed responsibilities within and among business units . . . These developments simultaneously give enterprises more opportunity to enter new markets and to develop new products, while increasing their ability to adapt to intensified competitive pressures."
>
> ***Risaburo Nezu, OECD***

As a general observation, it seems that enterprises are pursuing flexibility strategies along more dimensions than in the past (OECD, 1996a, 1997a forthcoming). For example, firms in North America that traditionally have depended on external labour markets to achieve numerical, and to a lesser extent, functional flexibility are now relying more on internal means for achieving functional flexibility. Similarly, European firms that traditionally have achieved functional flexibility internally, through training and redeployment, are now using external practices such as outsourcing and temporary employment to increase both numerical and functional flexibility.

It is important to emphasize that a great deal of variation exists in terms of how firms attempt to achieve flexibility objectives. As Figure 1 suggests, there is a range of determinants at the level of the enterprise, as well as more systemic inernational variations that reflect the culture, history, institutions, and public policy of particular countries. The OECD (1997a forth-coming) has identified four dominant "regional" approaches defining the major currents of organizational change: countries with Anglo-Saxon traditions, the northern European countries, Japan, and the "intermediate" or "catch-up" countries. The

key elements of the first three are summarized below:[3]

As already noted, enterprises in those countries with Anglo-Saxon traditions (Canada, United States, United Kingdom, Australia, and New Zealand) have typically depended on external labour markets for achieving numerical, and to a lesser extent, functional flexibility. This reflects a strong market-driven orientation which in most of these countries has been expressed through relatively little labour market regulation, low unionization levels, decentralized determination of wages and working conditions, and relatively high levels of educational attainment. Much of the recent organizational innovation has involved further extending numerical flexibility through the use of overtime work, non-standard employment arrangements, and out-sourcing. At the same time, there are signs of relying more on internal means for increasing functional flexibility, through training, decentralized decision-making, and other practices that together are often referred to as "high performance" work systems.[4]

The approach in much of northern Europe (including, for example, Germany, the Nordic countries, and France) has been characterized as "relations-based" or "consensual." In comparison to the first group of countries, markets are more protected, collective representation and centralization are more prevalent, decisions at both micro and macro levels are more often based on negotiating a consensus among the stakeholders, and the human resource development system has a strong vocational orientation. Enterprises in these countries traditionally have achieved functional flexibility internally through training and redeployment, with important restrictions on numerical flexibility. The thrust of organizational change now is to use internal means in the form of varying work hours to achieve some numerical flexibility and to implement external practices, including outsourcing and the use of temporary employment, to enhance both functional and numerical flexibility. [5]

A "firm-level consensual" approach is used in Japan. Similar in some ways to the European approach, enterprise flexibility in Japan has been internally oriented, with an emphasis on teams and multi-functional employees.[6] Japanese enterprises now show signs of trying to achieve more functional flexibility through external means, by paying more attention to the qualifications of workers in the recruitment process, and by more frequently looking outside the firm for a range of production inputs, including skills and other intangibles. This is accompanied by pressures for broader institutional change to enhance external flexibility.[7]

As organizational change proceeds in various countries, certain traditional regional differences in the way enterprises approach flexibility seem to be breaking down. For example, the stylized characterization of numerical flexibility through external means in the countries with Anglo-Saxon traditions is becoming less evident, as is the customary use of internal practices to achieve functional flexibility in the European countries and Japan. These trends do not necessarily imply convergence but they do suggest that the process of workplace change is manifested differently depending on the features of traditional systems.

The diffusion of innovative workplace practices

It is difficult to assemble good empirical evidence on the diffusion of organizational innovation. Defining and measuring organizational change is hard to do unambiguously. Some aspects of change are more readily captured in labour force or household surveys, while others are obtainable only from employer or establishment surveys; there may be difficulties in linking data from these two kinds of surveys. Much o f the information that is available has come from "one-off" surveys and studies sponsored by government departments, researchers, and business and labour groups. As one would expect, there is little uniformity in terms of subject definition, methodology, and resulting data. Moreover, firm-level capital related to the four key elements of

organizational innovation - strategy, work organization, human resource management practices, and industrial relations practices - is largely intangible and not easily subject to quantitative measurement. This is particularly true in smaller enterprises, where strategy and workplace practices tend to be informally determined and applied and thus, typically, not codified. Identifying flexible workplace practices poses special problems because this inherently involves quantifying practices that are continuously changing (NUTEK, 1996). Also, as we have already emphasized, what constitutes "organizational innovation" can vary across countries because of cultural and institutional differences.[8]

Thus, any empirical observations about the extent of workplace innovation must be treated with some caution, particularly when comparisons are being made across countries. Nevertheless, efforts being carried out by the OECD and a number of member countries are leading to significant improvements in the information base. [9] On the basis of the country reports prepared for the technological and organizational change/flexible enterprise programme, the OECD estimates that about one-quarter of all enterprises are adopting new, more flexible organizational systems (OECD, 1997a,b forthcoming).

These emerging systems constitute what the OECD calls a "loosely defined model" that in a given organization will incorporate some of the following strategic, structural, and behavioural features:

- more job complexity, multi-tasking, and multi-skilling;
- increased employee qualifications;
- ongoing skill formation through enterprise training;
- a minimization of hierarchy;
- greater horizontal communication and distribution of responsibility (often through teams);
- compensation incentives for performance and skills acquisition;
- increased focus on "core activities"; and
- more horizontal inter-firm links for subcontracting and outsourcing.

This list highlights the fact that organizational changes under discussion include changes in both internal and external operations (i.e., how the enterprise manages its "boundaries").[10] While many organizations have adopted only some of the features listed above, these do tend to be complementary and are sometimes bundled together (especially in large firms). For example, some enterprises have moved to a "coreperiphery" model in which employers rely primarily on a "core" of experienced, skilled employees that is augmented, as needed, by a "periphery" of either highly skilled contractors providing services outside the firm's core competence or inexpensive and less skilled "periphery" workers. Other firms have implemented "lean production" systems, again relying on a core of skilled employees, with many components of the final product or service and supporting activities provided by outside suppliers. Both of these systems are designed to simultaneously increase internal and external flexibility - the former through "high performance" workplace practices (with respect to job design, training, information-sharing, etc.) for core employees, and the latter through either peripheral employees or outsourcing and subcontracting.

An important feature of organizational change, relating to both internal operations and external relations, is its interdependency with technological change. The availability of new information and communication technologies and their potential for altering the work process has spurred much of the workplace change that has taken place in recent years. Generally, new practices such as those described above have been built around new technology, replacing traditional ones based on hierarchy, rigid task divisions, and fixed organizational boundaries that become increasingly inappropriate as flexible technologies penetrate deeply into organizations.

Surveys in different countries do reveal some similar patterns of organizational

change. The most important variable appears to be firm size, with large enterprises much more likely to report these innovations than medium and especially small firms.cThere also appear to be differences across industries. In general, organizational change has been most prevalent in industries exposed to international competition. As one would expect, then, higher- than - average rates of adoption have been found in manufacturing where external initiatives to increase flexibility through, for example, subcontracting and outsourcing have diffused fairly widely. In some manufacturing industries, especially where competitiveness is heavily determined by quality and innovation, these externally-oriented changes have often been accompanied by internal "high performance" practices involving training, job design, communication, and compensation.

Less information is available on organizational change in the service sector. However, as researchers have started to shift their attention to services, it has become evident that changes analogous to those in manufacturing are occurring in this sector as well. This is especially the case in communications, business services, and banking and other financial services, where large firms, in particular, are now undergoing significant organizational transformations. It seems reasonable to assume that organizational change will accelerate in the service sector as the links between services and goods intensify, as deregulation and globalization increase both domestic and international competition in services, and as information and communication technologies continue to transform the nature of service production.[12]

Outcomes Of Changes In Organizational Practices

Changing organizational practices are having a range of impacts - both "micro", affecting enterprises and workers, and "macro", affecting the labour market and society more broadly. Clearly, there are close links between the two. It is often difficult to unambiguously identify these impacts because of complex and sometimes unobservable causal relationships. As well, outcomes can vary depending on the cultural and institutional context. Consequently, there are still important gaps in our knowledge of the implications of changing workplace strategies.[13]

Micro-level impacts

Much of the empirical work has examined how changing organizational practices are affecting firm performance. In general, this research has focused on the impacts of internal strategies such as variable pay, training, employee involvement, and job redesign on enterprise outcome variables such as productivity and sales. While methodological complexities render this analysis far from exact, results are accumulating which suggest positive outcomes associated with these human resource and organizational practices.[14]

The precise mechanisms underlying this link, however, are not well understood.[15] Research does show that changes appear to be more effective for firms when they occur as a "bundle" of complementary practices than when they are implemented in isolation. Another key to successful innovation is input on the part of labour. This includes the involvement of individual employees, which both strengthens support for change and allows the change process to benefit from the tacit knowledge embodied in workers. In organized settings, it also includes union involvement through a process of negotiated workplace change.[16] This may be particularly important for ensuring that innovations are durable over time.

> "Here in Canada, some unions and employers have achieved good working relationships and have negotiated workplace changes which reduced narrow job classifications, gave more authority to front line workers, increased investments in skills, and generated significant productivity and quality improvements

while also improving the quality of life in the workplace. The common feature of these positive examples was a negotiated process of change, in which the union played a major role as the legitimate collective voice of workers."

Bob White, Canadian Labour Congress, Canada

To date, the analysis has focused on how internal workplace practices affect enterprise performance, but there are a number of other important areas where far less is known about the "micro" implications of organizational change. These include:

- The impact of flexible workplace strategies on the quality of work. Although some of these practices clearly have the potential to make jobs challenging and rewarding, it is also evident that these changes are sometimes implemented in ways that create stressful environments because of a wider range of demands on employees and because of speed-ups and other forms of work intensification. Presumably, training, opportunities for employee feedback, and employee assistance policies which provide a range of personal services (e.g., counselling) can make a difference.

- The impact of subcontracting/outsourcing and the use of nonstandard employment on both enterprise performance and the quality of work. While the diffusion of these strategies would suggest that they do improve performance, empirical analysis is in fact quite limited. The quality-of-work issue relates to both "core" employees and those in the firm's "periphery".

- The impact of organizational change on formal employee representation. Strategies intended to increase both functional and numerical flexibility have a range of implications for unions and collective bargaining. These include union organizing, the commitment of employees to the union as an institution, union participation in enterprise management, and collective bargaining priorities.

- The implications of workplace changes for enterprise employment. There is clear evidence regarding impacts on types of employment, with most research concluding that, in general, flexible organizational innovations are associated with an upward shift in skill requirements and a reduced need for unskilled or poorly educated workers (OECD, 1996a). Workplace change also appears to place a premium on general employability skills, including adaptability to change, communication, problem-solving, and team-work.

There is less evidence of the effects on the numbers of employees in the firm. A few studies in various countries, including Australia, New Zealand, Denmark, and France, have found a positive relationship between the adoption of flexible organizational practices and establishment employment levels (OECD,1996a). However, the effect clearly depends on how improved enterprise performance is translated into employment via price and quantity effects (OECD, 1997a forthcoming). Job security is another employment issue relating to organizational innovation that requires more research. While the commitment and investment involved in certain "high performance" workplace strategies (e.g., extensive training to increase functional flexibility) would suggest improved security, downsizing and other strategies designed to enhance numerical flexibility, by definition, would be expected to reduce job security.

Macro-level impacts

Less is known about the "macro" effects of workplace change, for example, in terms of productivity, employment, human resource development, and

incomes. In the first place, it is difficult to disentangle organizational change from the broader currents of industrial restructuring. Second, the links between organizational change and macroeconomic outcomes are especially complex. Overall effects cannot always be taken as the addition of micro-level impacts; consider, for example, the complications involved in estimating the effects of outsourcing and subcontracting on aggregate employment. From a public policy perspective, though, it is the macro effects that are most relevant, so it is important to understand them as much as possible.

To the extent that flexible organizational practices do improve enterprise productivity, output, and quality, they can be assumed to contribute to aggregate economic performance as well. However, quantitative evidence does not exist to indicate whether this spills over into net employment creation. A high priority for future research is to clarify the transmission mechanisms between production and employment under emerging organizational models (and to identify any differences from the linkages under traditional models). While the impacts of work -place change on the overall level of labour demand are unclear, we have seen that it affects the composition of labour demand, by introducing an upward skill bias and by increasing the demand for general employability skills.

Organizational change is also affecting human capital investment, including the types of investments, where the investments are made, and lifecycle investment patterns. Generally, the upskilling associated with workplace change has the effect of boosting the importance of skills acquisition, presumably by increasing rates of return to human capital investment.[17] Moreover, where organizational innovation involves the adoption of "high performance" practices and the pursuit of "learning organization" features, skills are frequently acquired through continuous employer-sponsored training. It is not clear, however, that there is an overall trend towards more human capital investment in industry. In fact, polarization may be occurring, with investments increasing for well-educated and skilled employees, notably those in the core of "high performance" workplaces, but not for the less skilled workers employed in the "periphery", or in traditional or small organizations that offer little training.[18] Finally, the adaptability to change that is an inherent part of flexible workplace systems suggests the need for lifelong learning and skills upgrading. Evidence from training surveys in various countries, however, suggests that employer investments are concentrated on prime-age workers, and not on younger and older cohorts (OECD, 1993).

In a number of OECD countries, the wage distribution has become more unequal over the past 10 to 15 years. Since this period roughly coincides with the diffusion of new workplace practices, some observers have raised questions about whether organizational changes have been a contributing factor. While researchers have not been able to definitively test this, there are various ways in which flexible strategies could be expected to have this effect. Two have already been discussed: the skill bias in labour demand and the unequal access to training in favour of the well-educated. In addition, variable pay practices tend to widen intra-firm distributions by eroding traditional, often centralizing, wage relationships and linking compensation more closely to skills and performance which can be very unevenly distributed. Finally, organizational strategies designed to enhance numerical flexibility (e.g., relying on overtime and using non-standard employment contracts) can lead to a polarization of working time. This is a potentially important development in its own right, and it already has had a polarizing effect on the earnings distribution.[19]

In the final analysis, even though evidence is far from complete, the implications of organizational changes that have diffused over the past decade or so are very complex. On the one hand, bundles of flexible innovations have been shown to favourably impact on the performance of enterprises by enhancing organizational adaptability and by expanding the contribution that employees can make. It is reasonable to assume that these changes have also

had an aggregate effect on productivity and output, to the extent they have diffused throughout national economies. As well, by providing opportunities for highly skilled and rewarding work, and for human capital investment, certain forms of workplace change are clearly desirable from the perspective of employees. On the other hand, some aspects of organizational change raise important concerns around polarization (of earnings, working time, and training opportunities), employment levels, and economic security.

> "Does investment in people really improve productivity and allow organizations to share gains with their employees? I'll just use the example of my corporation, Motorola, where we invest about 7 percent o f our payroll in the training and development of our employees and have done so for many years. For that 7 percent investment we get an average of 20 percent per year productivity improvement as measured over the last five years. We do share our gains with all of our employees through various bonus systems, reward systems, and incentive systems."
>
> ***Ed Bales, Motorola Corporation, USA***

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Diffusing "Best Practice" Workplace Innovation

The remainder of this paper is concerned with how effective organizational innovations can be more broadly diffused. We begin in this section by considering what constitutes effective, or desirable, workplace change from the perspectives of both employers and workers. In posing this question, it is essential to recognize that there is no single recipe for organizational change. What constitutes "best practice" in one enterprise may not in another because of a host of factors related to technology, markets, culture, history, and institutions. However, there are general underlying principles that can serve the long-run objectives of all stakeholders. It is these principles which are becoming clearer with the accumulation of empirical evidence regarding organizational change.

What is "best practice"?

Discussions of organizational innovation tend to be imprecise. Terms like "high performance systems", "high skill, high trust organizations", and "flexible enterprises" are widely used, typically as short-cut descriptors for "best practice" organizational innovation. However, the strategies, structures, and behaviours associated with these terms are by no means homogeneous.[20] Nor do they always constitute "best practice". We have seen in the preceding section that some strategies that are (explicitly or implicitly) considered within these models are not necessarily associated with positive outcomes for all the stakeholders. These effects may differ considerably across industries and in different countries. Moreover, business and labour often have different perspectives on what is "best practice". This is especially true in the short run, where changes that can contribute to enterprise performance (e.g., through greater numerical flexibility) can reduce employee well-being (e.g., through increased insecurity).

So it is not realistic to precisely identify what "best practice" is in terms of workplace strategies. A more promising direction is to acknowledge the diversity and to consider what principles are important in evaluating organizational change. This is particularly the case for governments interested in assessing aggregate economic and social outcomes. Surely, any notion of desirable organizational change must meet "efficiency" standards - i.e., fostering the knowledge accumulation and innovation that underlie the technological change, productivity gains, and flexibility associated with improving enterprise performance. Thus far, these objectives have dominated the process of organizational change, as it has unfolded in the OECD countries.

A complete assessment of workplace change must go further, however, and acknowledge the somewhat differing perspectives of employers and employees. Workers' concerns around workplace change certainly overlap with those of their employers, but it is important to recognize that their priorities may also differ due to concerns about job security, training opportunities, the ability to balance work with family responsibilities, and other factors.

> "For workers, change will be judged to be positive if higher productivity is shared in the form of better wages and benefits; if

> change results in more rather than less security of employment; if if change gives workers access to new skills and new opportunities; and if change improves the overall quality of working life in terms of health and safety and in terms of the ability of workers to make a productive contribution".
>
> ***Bob White, Canadian Labour Congress, Canada***

For organizational change to be sustainable, it must incorporate a long-run view of efficiency. Is it based on investments in "intangibles", such as human and organizational capital, technology, software, and market development? Does it provide workers with opportunities to enhance their employability and, thus, longer-run economic security? Are there productivity gains and mechanisms for sharing those gains? In the final analysis, much more thinking needs to go into defining what constitutes "best practice", but these are the kinds of questions that governments must raise in considering policy issues around the diffusion of organizational innovation.

Short-run tradeoffs relating to flexibility and security seem far less stark when time horizons shift outwards. The reason for this rests with the nature of organizations capable of sustaining high levels of performance. These are organizations that are faced with sophisticated and challenging operational requirements which cannot be met, especially over the long run, without high quality production inputs.

> "What is it that actually makes high performance workplaces work? This is a difficult question because they are trying to do something that is considerably more difficult than traditional workplaces. Many of these workplaces are operating in a just-in-time mode where there is a huge premium to rapid reaction, to very precise timing of production, to dependability for customers. They are operating highly complex technological processes in an environment of very rapid technological and market change. The demand for quality in both goods and services production is being raised to entirely new levels . . . Now obviously in order to make this sort of environment work, you need high quality labour and capital."
>
> ***Lars Osberg, Dalhousie University, Canada***

The precision, flexibility, and dependability demanded of a true "high performance" organization requires a workforce that can accept a delegation of authority, that has considerable social and occupational skill, and that has both organizational commitment and tacit organizational knowledge. Because attracting and maintaining such a workforce will require employer commitments in terms of job security, job quality, and the distribution of productivity dividends, enterprise performance will, in the long run, become fused with the ability of the organization to attend to these needs. Intangible investments in human resources ultimately are at the core of effective organizational change.

Before proceeding further, two qualifications should be made explicit. First, there are segments of any modern economy (e.g., personal services, certain traditional manufacturing industries) where cost-based competitive strategies may still be viable and where firms may be able to succeed without making major investments in intangible assets. Second, even where innovation and quality determine enterprise competitiveness and where investments in intangibles are being made, it may be rational from the firm's perspective to also draw on a more peripheral, more contingent workforce to respond to short-run flexibility needs.

Barriers to the diffusion of "best practice"

Researchers and practitioners have identified a number of factors that both constrain the diffusion of organizational change and limit the effectiveness of the change that does occur. Many of these barriers relate to problems associated with investing in intangibles, especially when it comes to human and organizational capital.[21] These problems include market failures, the difficulties of social change, and an unsupportive economic and institutional environment. ***Market failures***

Investment in intangibles is constrained by market failures associated with information barriers and externality problems. The likely result is a suboptimal level of investment.

- Information barriers occur at a number of levels. One involves the functioning of financial markets, which do not always have access to the information needed to assess the expected return on intangible investments, or the know-how to collect and interpret that information. As a consequence, these investments are probably undervalued.[22] Information issues are also relevant at the enterprise level. Traditional accounting frameworks at best measure the costs but not the returns associated with investments in human resources and other intangibles and, for a number of reasons, the diffusion of new accounting approaches is very slow.[23] Information on the nature of organizational innovation, including its benefits, is not easily available to many enterprises. Finally, public policy makers face gaps in information about the social value generated by intangible investments. Although there is a general sense that social returns to investments in human capital and technological and (increasingly) organizational innovation are substantial, there is scant hard evidence to support this (and, thus, to support decisions for more investment).

- A major externality problem applies to human capital and other forms of intangible investments. This issue, which has been frequently discussed in both the economics and management literature, pertains to the inability of firms to guarantee that they will capture the returns made on these investments. Thus, the aggregate level of investment from a social perspective will be suboptimal. For example, performance-enhancing organizational innovations require up-front training investments of both a general and firm-specific nature. With respect to general skills, in particular, enterprises face the risk of making initial investments that will be lost if employees leave before the returns can be captured.[24] This problem may become more serious as new workplace systems increasingly emphasize general employability skills that are transferable across organizations and as contingent forms of employment proliferate.

An unfavourable economic environment

Ironically, despite evidence of their contribution to business performance, organizational strategies based on intangible investments fly in the face of at least two important economic trends.

- One trend is the high level of unemployment that prevails in most countries in the OECD area. While it is true that slack labour markets can reduce the externality problem, on balance they probably create more disincentives than incentives for employers to invest in human and organizational capital. These disincentives arise from the availability of alternate labour supplies and the attendant downward pressure on wages (and, thus, a reduced imperative for firms to aggressively seek strategies to increase labour productivity growth).

- A second trend is the economic uncertainty prevalent in many OECD countries, which creates disincentives for enterprises to invest in

intangibles. Because intangibles are poorly measured, they are difficult to evaluate as strategic mechanisms for dealing with this uncertainty. An uncertain environment is never a favourable one for investment in general, but it is particularly discouraging for investments (i.e., in intangibles) that are poorly measured and evaluated in any case.

Divergent interests

We have already discussed the point that, at least in the short run, employers and employees frequently have differing perspectives and interests regarding organizational change. This heightens a natural unwillingness to take the risks inherent in the redefining of roles, responsibilities, and relationships that is necessary in changing workplace systems. Research has identified both managerial and employee reluctance as factors in slowing the diffusion of organizational innovation and in impeding the effectiveness of innovation that has occurred.

In many organizations, labour and management do not have a history of trust and collaboration to build on in taking on risks associated with changing longstanding practices and behaviours. To further complicate the situation, the recent record of organizational change has been dominated by management-led initiatives, often in response to crisis situations. This is a difficult setting in which to generate the cooperation and long-range planning that is important in achieving effective, durable workplace change.

Unsupportive institutional and policy frameworks

Institutional frameworks and public policies often act as impediments to the introduction, diffusion, and sustainability of organizational innovation that may involve on intangible investment. These can involve a wide range of institutions. For example, corporate governance and financial market institutions that emphasize shareholders' short-run interests (above longer-term interests or those of other stakeholders) can act as a disincentive to the kinds of organizational innovation that we have identified as "best practice". Labour market institutions that enable firms to "externalize" adjustment costs discourage human capital investment as an organizational strategy. Other potentially relevant barriers include institutions that offer little support for labour-management cooperation on workplace issues; employment standards and regulations that impose costs which have the effect of deterring hiring; and weak education and training institutions that fail to generate the supply of skilled workers needed for "high performance" work systems.

Naturally, the importance and the nature of institutional barriers vary across the OECD area. Moreover, the role of institutions can be very different in terms of affecting the ease of innovation, on the one hand, and its sustainability, on the other. Relatively fragmented institutional frameworks appear to support the introduction of organizational change, but more formalized and centralized institutions seem to foster sustainability and transfer.

> "Conditions that inspire and foster the development of organizational innovation are quite different from, and indeed in some ways incompatible with, the conditions that can best sustain innovation where it develops and diffuse it to other settings . . . The paradox is that while innovation may be uniquely uniquely easy to achieve in a relatively decentralized, fragmented, and deregulated setting such as that in the U.S. . . . innovation may be especially easy to sustain and diffuse in the formalized, functionally compartmentalized, legalized, negotiation-bound German economy."
>
> ***Kirsten Wever, Rutgers University, USA***

Overcoming barriers: a multiple stakeholder approach

Many of the barriers identified above provide a rationale for government involvement in supporting organizational innovation. The public policy issues ultimately represent the key questions in this paper and we will address them in the next section. However, before turning to what governments should do, it is important to emphasize that it is not realistic to place the full, or even the primary, responsibility for organizational innovation on governments. In the first place, there are political and cultural limits to what government can do to affect operations within the workplace. And, second, effective organizational strategies and practices are, above all, the product of choices made by employers and employees.

Management and labour, then, must be the principal agents of change. The actual role that each plays will differ across OECD countries because of variations in history, culture, and institutions. For example, in the European model, formalized and negotiated consensus between employers and unions will always be an important vehicle for defining workplace arrangements. In the "market-driven" Anglo-Saxon countries, on the other hand, unilateral managerial initiatives are bound to play a greater role, although some mechanism for employee input will be critical.

Employers need to be strategic in a long-run sense, considering innovations that "fit" well with the emerging business environment, where the accumulation and application of knowledge are keys to sound performance. This may require new ways of thinking about information systems and accounting frameworks that can capture the costs and benefits of intangible assets and, thus, will lead to the efficient allocation of enterprise resources. At the same time, given that human and organizational capital are such key determinants of performance, employers increasingly need to consider issues around managerial prerogative and employee input. Put simply, power relations may have to change for organizational innovation to be effective.

Labour must also reassess its strategies in a longer-term framework, incorporating a stronger vision of workplace reform. In most countries, especially those where consensus is not important, unions have been slow off the mark in the reconfiguration of the workplace. With management initiating most innovation, labour has often faced the difficult choice of passively accepting the changes (and, in the process, potentially not serving members' interests or their own institutional interests) or automatically resisting change (and risking impeding needed reforms and/or becoming irrelevant in the change process). To be a critical player in shaping innovation and affecting the distribution of its benefits, labour will require a strong vision of what the goals of workplace reform should be and how they can be attained. Without this vision, unions risk being on the sidelines of a change process that may ultimately lead to new mechanisms for representing the voice of workers, as the employee-employer relationship is redefined.[25]

> "Clearly there is no single formula for ensuring that labor finds and holds onto that elusive combination of power and strategy that I would argue are necessary for innovation, the diffusion of innovation, and the diffusion of the benefits of productivity advantages gained through such innovation. But, as I see it, this is the task facing all labor movements today."
>
> ***Kirsten Wever, Rutgers University, USA***

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Strategic Policy
Applied Research
Research Themes
Publications
Children and Youth
Disability
Job Futures
Metropolis
Conferences
Personnel

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Priorities For Governments

In this concluding section, we turn our focus to public policy issues. What can governments do to support the diffusion of organizational change that serves both efficiency and equity interests? Since intangible investments are at the core of the knowledge generation and innovation that underlie such change, the clearest priorities are education and training and technological change. However, public policy must go beyond these to address infrastructure, economic security and, ultimately, the very nature of the postindustrial "social contract". The list of issues facing governments, then, is diverse. It is challenging as well, most obviously because of fiscal pressures, but also because traditional policy strategies and instruments are increasingly ill-suited to the emerging knowledge-based economy. In the final analysis, governments will have to take on new roles and develop new skills and competencies. In other words, innovation is key not only to the performance of enterprises, but also to the effectiveness of governments.

> "An effective and efficient workplace is the result of choices made by employers and employees. Governments cannot impose attitudes and behaviours. But governments can stimulate study and discussion. They can inform and raise awareness of the public. They can create the environment needed to effect change."
>
> ***Honourable Alfonso Gagliano, Minister of Labour, Canada***

Rationale For A Public Policy Interest In Organizational Innovation

The concerns of government regarding organizational change stem from an interest in how workplace practices can affect public policy goals such as productivity growth, income growth and distribution, employment, and social cohesion. The policy relevance, then, is not because of any overriding government interest in what happens in individual workplaces *per se*, but rather how "best practice" at the "micro" level can serve traditional "macro" policy objectives. There are two reasons why governments need to think about how they can enhance this linkage.

> "Of course, the reason why organizational change is a public policy issue is not about how a single, stand-alone high performance workplace exists. The public policy issue is how we create a high performance economy. More exactly, the public policy problem is how do we increase the percentage of establishments that have these sorts of high productivity characteristics and how do we enable them to thrive in the long run."
>
> ***Lars Osberg, Dalhousie University, Canada***

The first centres on externality arguments. In the previous section, we discussed these externalities, which pertain to uncertainties about recouping the returns from investments in intangibles. This creates disincentives for private parties to make these investments, which in turn result in a socially

suboptimal level of investment. This has constituted a conventional rationale for government involvement in training and research and development, for example. There is nothing new about the externality argument today, except that its importance has presumably heightened with the increasing role of intangible assets in economic activity. The issue, as it applies to human capital and technology generation and diffusion, is a familiar one for policy-makers, but there is less familiarity with externality issues as they relate to other intangibles, such as organizational skills and structures, new kinds of software development, and other forms of knowledge generation.

The second motivation for government interest in organizational innovation is a broader one, involving public good arguments. We have already made explicit the link between "micro" activities that occur at the level of the enterprise and "macro" economic and social outcomes. As a result, governments have an incentive to produce, or facilitate the production of, public goods that support the adoption of organizational changes with desirable macro impacts. Probably the most obvious example is the supply of a well-educated workforce. Another is an institutional framework that encourages labour-management dialogue, that supports innovation in enterprises, that provides information on innovation and intangible investment, that offers some social support and security, and that fosters social cohesion.

Ultimately, governments need to be concerned with the diffusion of organizational innovation in order to achieve both efficiency and equity objectives. Organizational change that focuses on intangible investments has the potential to encourage productivity-enhancing innovation while increasing the employability and contribution of individual workers. In fact, economists and policy-makers are increasingly convinced that, in an economy where growth is driven by knowledge accumulation and innovation, the traditional notion of an equity-efficiency trade-off is no longer appropriate.[26] Instead, these two objectives, both driven by intangible investments, should be seen as complementary, especially over the long run. Thus, by addressing externalities associated with these forms of investment and by taking responsibility for key public goods that facilitate the accumulation of intangible assets, public policy can simultaneously increase economic opportunity and widespread individual participation in the gains from growth.

Themes for a policy agenda

The themes of a policy agenda should focus on the support of organizational change that encourages investment in intangibles, that offers individuals opportunities to enhance their employability, and that contributes to productivity growth while ensuring that gains are shared. This involves a number of areas that are traditionally of concern to governments, including education and training, industrial relations, technological innovation and diffusion, labour adjustment, social insurance, and macroeconomic policy. However, the challenge will be to refashion existing strategies, institutions, and policies to fit with the changing realities of the workplace and the post-industrial "techno-economic" paradigm. Despite the fiscal and political constraints they face, governments, as the representation of collective will, must play a key role in this paradigm shift.

In the following pages, four policy themes are discussed: fostering "best practices", supporting lifelong learning; providing economic security; and refashioning the "social contract". As we will see, these themes are closely interconnected. Clearly, another essential theme of a government agenda on innovation is to ensure that the right framework policies - for example, macroeconomic policy, competition policy, and trade policy - are in place. Since the role of these framework policies in fostering innovation is discussed in some detail in OECD (1996a), they are not included here.

Fostering "best practices"

This objective is emerging as a necessary activity in support of the diffusion of organizational change that leads to desirable macro outcomes. Policy initiatives intended to foster desired organizational changes should include creating and disseminating information on workplace innovation; providing consulting support on organizational change and on investing in intangibles, more generally; and brokering sectoral or national institutional partnerships.

These represent relatively new activities and much needs to be learned. However, many governments are now signalling their intention to develop policy expertise around organizational change, in particular to address some of the obstacles to diffusion, including information barriers and unsupportive institutional frame-works. [27] To cite one example, the Danish government has decided to make enterprise flexibility a priority by initiating a cooperative effort between the Ministries of Business and Industry, Education, Labour, and Research on how to improve framework conditions for organizational change. [28] The first step in this initiative involved extensive dialogue with enterprises, social partners, educational institutions, and technical service providers. A policy review will subsequently be based on this consultation.

Many governments have identified the need for more data and information on organizational innovation and better dissemination of relevant knowledge throughout industry. In particular, there are gaps in the evidence on the outcomes of innovation, in the information on effective innovation processes that lead to sustainable workplace change, and in the ability to place a value on intangible assets. Governments have a role to play in ensuring that these gaps are filled.

There is evidence of some progress. Industry and human resource departments in a number of OECD governments are now developing databases, cataloguing experiences, and making a range of different types of information available to business clients. In Canada, for example, the industry department has launched "Strategis", which is an information product offered through the Internet that includes thousands of documents that are intended to help businesses in a range of areas. Industry Canada reports that, on the basis of the number of "hits", it is clear that businesses are using the service.

In some countries, governments are starting to offer enterprises "extension-style" services related to organizational change. These services tend to target small and medium-sized firms (OECD, 1997a forthcoming, Table 8). As well, there are some very preliminary efforts, most notably in the Nordic countries, to develop approaches that help firms implement accounting and reporting systems that better measure human capital and other intangible assets. [29] Traditionally, industry department services focused on technological change, but these tentative steps suggest that some governments are concluding that the benefits of innovation will not be realized unless innovation is broadly defined to include both organizational and technological change. In fact, the complementarity between the two should guide the underlying philosophy of these government strategies.

> " We've belatedly come around to the view that it's really the complementary link between technological advancement and organizational change that matters . . . It's frankly been a sea change in the way we do business. Only in the last few years, we've gone from a traditional approach of helping industry through grants, subsidies, and various other forms to really helping industry help itself . . . We're also interested in the human resource dimension because, after all, with capital and technology increasingly mobile, it is the human skills and capabilities that are critical in investment decisions . . . There are obvious overlaps and synergies with the other departments in government."
>
> ***Andrei Sulzenko, Industry Canada, Canada***

Finally, sectoral, regional, and national structures representing employers, labour, and the education sector are potentially effective instruments for assembling, interpreting, and disseminating relevant information. These means of fostering "best practice" - information generation, consulting, and supportive institutions - do not necessarily require direct government service provision. Governments can largely play a broker or catalyst role. A number of countries have already moved in this direction. For example, the federal and provincial governments in Canada have worked with stakeholders in several industries to establish sector councils that deal with a wide range of human resource and organizational issues. In the United Kingdom, there are a large number of Training Enterprise Councils that involve local partnerships between industry and the education sector.

Supporting the "learning society"

There is consensus that human capital investment is crucial to productivity, growth, and individual participation in the knowledge-based economy. The underpinnings of this proposition, and its corollary that investments and the learning that results must be lifelong, have become familiar enough that they do not need to be reiterated here. Differences of opinion do exist, however, regarding private and public responsibility. Nevertheless, the view is widely shared that government has an important role to play in assuring that the aggregate level of investment is substantial, that its makeup is appropriate, and that it is well distributed.

Within the context of lifelong learning, these objectives suggest a number of public policy priorities: providing basic-skills education; supporting efficient human capital markets through information, counselling, and standard-setting; promoting linkages within the education sector, between that sector, labour markets, and industry technology diffusion policies; and addressing inequitable access. In the final analysis, then, the focus for human resource development policy should be to ensure that the basic skill foundation is strong, to provide "infrastructure", and to ensure that workers and employers "get the financial incentives right". Naturally, the specific policy instruments to address these priorities will differ from country to country.

The starting point must be basic skills. The currents of economic restructuring and organizational innovation are shifting the skill composition of labour demand upwards. There are fewer and fewer opportunities for individuals who do not have a strong basic skills foundation. This foundation, which includes, for example, literacy, numeracy, communication, and problem-solving , not only represents a key for accessing employment; it also provides the starting point for a virtuous circle of challenging job requirements, additional development of general skills, and employer sponsorship of further, more occupation- specific human capital investment. For those without basic skills, there is a high probability of a more vicious circle resulting in a skills deficit and marginalization .

Nevertheless, as the results of the International Adult Literacy Survey (IALS) and data on educational attainment have demonstrated, significant numbers of adults in even the most advanced countries lack even the most basic foundation skills. [30] The IALS findings and other educational data confirm the association between literacy skills (and presumably, by extension, other foundation skills) and educational attainment and employment and economic well-being. This raises an important implication for governments - i.e., that even with universal education systems, basic skills remain a problem. And, externality and public good arguments suggest that, of all the dimensions of human capital, this is the one where direct public investments most obviously must be made.

> "The most important thing for government policy in education is to promote access to lifelong learning. And to do that, two things are important. The first is to provide high quality basic education

> and then infrastructure for the rest. Basic education means both knowledge and skills. This basic education has to be provided and financed by governments, which also set standards, evaluate progress and provide flexibility and diversity."
>
> ***Asa Sohlman, Ministry of Education, Sweden***

A second policy priority involves the provision of information, counselling, and standard- setting. These are forms of "infrastructure" that improve the efficiency of human capital markets by clarifying what employers are looking for and what employees have to offer. Thus they are closely linked to the objective of fostering "best practices". In many respects, the economy is moving in directions that are making the informational requirements of human capital markets more difficult. Increased organizational flexibility, the growth of small firms, an acceleration of shifts in labour demand, the breakdown of traditional occupational demarcations, the increasing focus on general employability skills, and the proliferation of education and training channels are all contributing to heightening the informational challenge. As a result, improving labour market information, providing counselling opportunities, and establishing occupational and skill standards must become greater and more conscious priorities. While there is scope for private markets to contribute on a major scale, governments inevitably must play an important leadership and coordinating role in ensuring clear and efficient signalling in human capital markets.

Another policy priority relating to human resource "infrastructure" concerns the linkages within the education sector and between that sector and the labour market. We have already noted the importance of these linkages in our discussion of how governments can foster "best practices". Strong linkages will contribute to the information requirements described in the preceding paragraph. However, they can fulfill other functions as well. One is to support the school-to-work transition. Researchers have identified clear benefits when links between educational and training institutions and the labour market are strong, systematic, and widely recognized. Another is addressing the particular problems experienced by small firms, problems which result in their relatively low levels of human capital investment. Sectoral structures, such as industry associations or bipartite councils organized along industry or regional lines, represent a possible solution by pooling resources to share relevant information and expertise, to improve training supply channels, to create better economies of scale, and to reduce risk. Obviously, there is a role for all stakeholders in strengthening these and other linkages; however, here too, governments inevitably must be leaders and catalysts in terms of brokering and creating incentives for desirable partnerships.

> "Governments everywhere need to think about how they can begin to improve the linking mechanisms. Just taking the two issues that we have been trying to focus on in this conference - science and technology support for firms and education through human resource development - we don't have the right kind of linking mechanisms. How do we build stronger and different kinds of networks that link firms with the education and training providers at the local level?"
>
> ***Joan Wills, Institute for Educational Leadership, USA***

Another high priority for governments relates to access to human capital investment opportunities. This is of particular concern given that these investments are increasingly the key to determining the well-being of individuals. But there is more than that. Human capital markets, as they currently function, appear to generate outcomes that have a polarizing effect. We have already noted the virtuous and vicious cycles associated with skill levels and investment opportunities. For adults, these opportunities, whether self-sponsored or financed by employers, are concentrated among those who already have high levels of skills. In part, this is because these individuals tend

to be in "good" jobs where training is offered or because they have the income to finance their own continuing education. And, in part, this is because demand by individuals for adult education and training is strongly correlated with their existing level of human capital. [31]

Given the negative economic and social consequences arising from this polarization, governments have a motivation to confront these access issues. Obviously, dealing with school failure and reducing early school leaving will minimize future problems for the adult population. In terms of continuing education and training, the labour market problems of the unemployed, the marginalized, and the unskilled must remain a policy priority. However, there are also financial constraints facing adults who are employed in firms that do not sponsor training or are in contingent jobs where training is not offered. In these situations, ongoing formal learning is unlikely to occur without some policy-related inducement, despite the fact that significant private returns to human capital investment have been well established. The challenge for governments is to devise instruments that encourage and permit individuals to invest in themselves, without creating substantial added public expenditures or new forms of dependency.

> "The school system, of course, is there to address generic skills, and the workplace certainly has a responsibility to ensure that specific skills are developed. Obviously there are many public policy issues around those subjects, but one that cannot be ignored concerns the labour market problems of the disadvantaged and the marginalized."
>
> ***Jim Lahey, Human Resources Development Canada, Canada***

Providing economic security

Widespread economic insecurity appears to be entangled in the transition to the post-industrial economy. Certainly, the diffusion of more flexible organizational models is perceived to be one important source of that insecurity. Workers everywhere are concerned about downsizing, outsourcing, and the growth of contingent employment, as well as the implications of these trends for unemployment, inequality, and poverty. Ultimately, high levels of economic insecurity have the potential to erode popular support for growth-oriented economic agendas founded on innovation, flexibility, and the efficiency of markets. At the same time, a failure to confront the security issue could potentially threaten social cohesion. For these reasons, governments must place a high priority on how to provide security in the new environment, whether this is achieved through a reinvented safety net or through very different institutions and policies.

> "It is generally accepted in my country that technological and organizational change are two aspects of the same phenomenon: a change in the nature of work. This is an upheaval of such magnitude that there is no model which people can hold on to in order to face the future with certainty. In these circumstances, the classic response is to be afraid and to be cautious in the face of further change."
>
> ***Vincent Vielle, Ministry of Industry, France***

Economic insecurity certainly has an empirical basis in many labour market and economic indicators. However, this is only part of the story. An important aspect of the insecurity issue stems from the weakening of those institutions that provided the "anchors" of the 1950s, 1960s, and 1970s. Because of economic change, political shifts, and fiscal crises, these anchors - including stable employment systems, extensive worker representation, but most importantly, the social safety net - have become less effective as sources of

security over the past decade or so. With no certainty about what will replace them, there is widespread concern that the risks associated with economic change will be increasingly shifted onto the shoulders of individuals and away from the collectivity.

In the industrial paradigm of the postwar decades, the notion of security involved protection ***from*** change. This notion clearly is being redefined in the emerging postindustrial paradigm, with security now being viewed as the ability ***to*** change. Thus, the human capital policy issues discussed earlier are absolutely central to the reconceptualization of how economic security will be provided.

Moreover, in the industrial era, security was closely linked to having a job. Not only has the income from work obviously been a key element of that security, but social programmes and benefits in most countries have been tied to the state of employment. However, if the myriad of work arrangements (for example, self-employment, independent contracting, temporary work, etc.) that have proliferated in many countries do, in fact, describe employment in the postindustrial economy, new strategies will have to be devised to uncouple security from the job and accommodate more varied patterns of activity.

Certainly, new forms of worker representation and new enterprise employment systems will help to define security in the emerging paradigm, just as they did in the past. However, in most countries in the OECD area, security has been the collective concern of society acting primarily through the state, or through social partnerships coordinated by the state. Ultimately, then, government policies, institutions, and brokering will be crucial to the security which provides the basis for a societal buy-in to efficient processes of economic adjustment.

The failure of governments to successfully grapple with the question of security thus far in the transition period has raised prospects of deepening marginalization and exclusion, as well as resistance to economic change. Marginalization and exclusion must be collective concerns because, in addition to their partly random nature, they also have important economic and social costs, as we have already noted. Indeed, a new conception of security, and how it can be provided, will be an important cornerstone of a new social contract which will underlie the flexible workplace and prosperity in the postindustrial economy.

> "Exclusion must again become everyone is concern. This is not for moral reasons ...but for purely practical reasons, because a society which tolerates a regime of exclusion which is too egregious, too commonplace, or too long-lasting will sooner or later become incapable of providing the necessary environment for successful enterprise activity. What this implies in terms of the design of workplace strategies is a new form of bookkeeping, a new cost-benefit analysis, which reckons the true cost of radical change leading to social exclusion."
>
> ***Harry Arthurs, York University, Canada***

Refashioning the "social contract"

Ultimately, the transformation of the workplace for the knowledge-based economy will depend on a revitalized "social contract". Social contracts embody a set of bargains that are fundamental to the functioning of a society and its economy. Their significance, whether the contract is explicit or implicit, is in their definition of how roles, responsibilities, and rewards are distributed across the society's stakeholders, including labour and capital.

A workable "social contract" is a necessary condition for sound economic performance and, indeed, this was a key ingredient in the prosperity recipe of

the postwar decades. [32] While the nature of these contracts may have varied from country to country, two cornerstones (among others) were the goal of full employment and a welfare state that provided social security and collective insurance. However, as changing market relations, economic restructuring, and dramatic technological innovation have transformed the character of industrial economies over the past decade or two, these cornerstones have weakened and, in the process, the social contracts they supported have become more fragile.

The implications of this have been reflected in social relations at the workplace level. Where employers have initiated arrangements to enhance their flexibility, the security of a ***quid pro quo*** has often not existed for labour. This insecurity, based on an absence of workplace-level guarantees, has been exacerbated by the erosion of societal supports in the form of full employment and protection offered by the welfare state. In addition to the attendant rise in insecurity and its consequences for individual well-being, this has likely slowed the diffusion of productivity-enhancing change and has made much of the innovation that has occurred less sustainable and less effective than it might have been.

Thus, a revitalization of the social contract, and its corresponding bargain at the workplace level, is necessary for both equity- and efficiency-related reasons. The foundation of this new social consensus is not yet clear, but it seems evident that it will depend less squarely on "full" employment, in the traditional sense of jobs for everyone who wants them, or on "passive" income-support guarantees. It seems probable that the key to a sustainable postindustrial "social contract" will depend in large part on access to human capital investment opportunities that foster lifelong learning and enhance employability, by helping workers to acquire skills that can be sold in the marketplace. While human capital investment opportunities will be essential, on their own they are not enough for a workable social contract. Collective support through some form of social insurance and a pooling of risk will still be required

The process of arriving at a new consensus is fraught with risk, as the stakeholders must move beyond their short-term interests, which are often in conflict, and negotiate a bargain that accommodates long-term goals. [33] This is a complex challenge that will require leadership from government, both in terms of ensuring that the institutional framework provides incentives for the stakeholders to work towards a consensus and in terms of working with them to identify and articulate the cornerstones of that consensus.

Achieving the agenda

There are a number of factors heightening the challenge governments face in pursuing this policy agenda. These include constraints relating to resources, structure, and know-how. Also, in many countries, the state must confront high levels of skepticism about its general capacity to govern efficiently and effectively.

The most obvious challenge stems from the fiscal pressures facing governments throughout the OECD area. These pressures restrict the sorts of solutions governments currently can pursue. In supporting innovation and knowledge generation, the fiscal limitations are particularly constraining in developing education and training policy and in addressing the economic security issue. In both of these areas, while there are many roles that governments need to play, an important one must be financial.

Determining the substance of a policy agenda that will support "best practice" organizational change is, in itself, a formidable challenge for government. In the first place, many of the issues can only be dealt with "horizontally", i.e., by crossing traditional departmental boundaries. For example, certain policy questions associated with intangible investment relate simultaneously to the conventional jurisdictions of human resource, industry, and financial agencies.

Moreover, traditional boundaries across sovereign states must also be bridged. Indeed, it seems likely that, over the longer run, policy makers will have to confront the challenge of how to address some concerns around intangible investments and innovation on a multinational level.

As well, there are challenges related to the knowledge and competencies of governments. A central theme of this paper has been that traditional policy goals concerning productivity, employment, and income distribution are strongly influenced by what is happening (or not happening) within organizations. In other words, achieving key "macro" objectives will require influencing "micro" processes operating at the enterprise level. But the workplace is not an arena where governments are confident about how to effect change. Certainly, in most countries, they cannot intervene directly. The task facing governments, then, is to develop strategies and institutions that create an environment for organizational innovation that in turn supports efficiency and equity objectives. In the final analysis, this is a considerable challenge which will require that governments take on new roles and develop new skills and competencies.

> " However, globalization is not the only cause of the state's declining capacity for purposeful action. Other forces have contributed as well: disillusion with interventionist government, resistance to paying taxes, regional and ethnic grievances, populism, high economic theory, and low political ideologies have have all played their part. The question we now have to ask is whether the modern state - enfeebled and delegitimated - can indeed play its necessary role as a contributor to new workplace strategies. And if not, who will provide the infrastructure, the education, the mediative functions, even the basic social peace and physical security, necessary for implementation of any significant workplace strategy?"
>
> ***Harry Arthurs, York University, Canada***

Innovation in government

The upshot of this discussion is that innovation in government is key to supporting innovation in enterprises. Traditional roles like programme and service delivery will continue, although their share of the total "business" of government and the way in which programmes are developed and delivered is already undergoing significant change. But the policy agenda sketched out here will also involve activities and roles that, if not new to government, have not previously been central functions. The diffusion of "best practice" innovation, the pursuit of a "learning society", the renewal of economic security, and the refashioning of the social contract will all require various non-traditional forms of government activity.

A major role must include leadership in helping to establish societal visions, in brokering the interests of different stakeholders in supporting those visions, and in being a catalyst to achieving them. Fiscal constraints and political skepticism mean that governments can no longer simply play a controlling role. They must work more synergistically with others and make their contribution by offering a collective voice, by being a centre of information and knowledge generation and dissemination, by offering technical resources and support, and by providing an enabling institutional framework.

Finally, governments are employers in their own right and, as such, they can make an important contribution to the diffusion of innovation. [34] To this point, there has been very little consideration of workplace change in the public sector and much more information is needed about what constitutes "best practice" in that sector and how it can be diffused.

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Strategic Policy
Applied Research
Research Themes
Publications
Children and Youth
Disability
Job Futures
Metropolis
Conferences
Personnel

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Conclusion

Strong economic performance increasingly appears to depend on innovation. In fact, most OECD countries have come to the conclusion that their capacity for innovation is the key to national economic success, in terms of both efficiency and equity standards. Since innovation often occurs and is usually applied at the organization level, "micro" processes are critical to the achievement of "macro" goals relating to growth and productivity, employment, and income distribution. In considering this relationship, however, innovation must be interpreted broadly to include not only technological change, but also changes in organizational and workplace practices. In fact, without org anizational innovation, it is unlikely that new technology can deliver its promised benefits.

As enterprises search for ways to compete in more competitive and technologically intensive environments, it is becoming apparent that organizational strategies, systems, and structures are required that are very different from the traditional models that prevailed through much of the postwar period. Over the past decade or so, some firms have experimented with new workplace initiatives designed largely to enhance flexibility. However, in the aggregate, diffusion of organizational innovation seems to have been slow, and where changes have been introduced, they have not always been sustainable, nor have they consistently served both efficiency and equity interests.

The nature and substance of workplace change will vary according to enterprise-specific factors as well as culture and institutions. As such, it is not realistic to try to identify a universal list of "best practices". It does seem possible, though, to identify certain principles that underlie "best practice" innovation, however it is manifested within the enterprise. At the core of the notion of "best practice" (i.e., serving both efficiency and equity interests) is investment in intangibles. However, there are certain barriers to this investment that need to be overcome. Eliminating these barriers will require important contributions from all the stakeholders, most obviously management and labour.

Governments also have a critical part to play. Human resource development must be a priority. But governments must also provide the infrastructure that supports intangible investments and the diffusion of "best practice" innovation. In addition, governments must also offer the necessary leadership in reforming the "social contract", principally by brokering the long-term interests of the stakeholders and by offering a new vision of economic security. Their capacity to finance and deliver services will remain important, but these traditional roles will share the stage with greater responsibilities to provide leadership, vision, and knowledge generation. To achieve this, governments must develop their own new strategies, skills, and behaviours - in other words, their own innovations - that will serve as an example to support innovation at the enterprise level.

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07

Important Notices

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Endnotes

1. Some economists interpret change of this magnitude as a shift in the "techno-economic paradigm". When transformation on this scale occurs, social and institutional arrangements must be revamped in order to fit with the new technological frontier and with the revised economic system (Perez, 1983).

2. The conference was organized into a series of plenaries which took place around workshops and focus groups that addressed particular dimensions of workplace change. The summary reports from these workshops and focus groups are included in Appendices 1 and 2.

3. Like any typology, this one overstates similarities within and distinctions across categories. Ultimately, though, it is a useful classification for summarizing the range of experiences within the OECD area. The fourth group has not been expanded upon here because the experience in these countries is actually quite heterogeneous and thus difficult to summarize. For more discussion of the typology, see OECD (1997a forthcoming).

4. For U.S. evidence, see Osterman (1994) and Applebaum and Batt (1994), and for Canada, Betcherman ***et al.*** (1994).

5. For example, temporary jobs have increased in France, the Netherlands, and Sweden during the 1990s (OECD, 1996b). In Workshop 3 at the Ottawa conference, Uwe Blien provided evidence of numerical flexibility measures used by German establishments - terminations, contract employment, variations in work hours, and differences between effective and bargained wages. There are also legislative developments intended to increase numerical flexibility; for example, restrictions on dismissals in Germany will apply to firms with more than 10 employees, compared to five employees as is currently the case. Obviously, these measures do have implications for job security. See the workshop notes from the Ottawa conference in Appendix 1.

6. However, in contrast to European systems, the Japanese approach operates at the firm level, with far fewer meso- and macro-level institutions coming into play. For example, in the area of human resource development, Japanese industry does not rely on a strong European-style occupational education and training infrastructure, but rather emphasizes firm-based training.

7. In Workshop 1 at the Ottawa conference, Yoshinori Satake, from the Ministry of International Trade and Industry, articulated the MITI view that the future strength of the Japanese economy will depend on changes in the way that enterprises do business, and that many institutional reforms need to occur to support this process of change. While suggesting that MITI sees merit in maintaining (presumably in somewhat modified form) some traditional institutions (e.g., long-term employment), Satake identified a number of priorities, including reform

of the Labour Standards Law regarding wages, working time, and the duration of labour contracts. See the workshop notes from the Ottawa conference in Appendix 1.

8. Many of these measurement issues were addressed during the Ottawa conference in a focus group on surveys of organizational change. The summaries of the proceedings from that group, as well as one on small and medium-sized enterprises and another on temporary employment agencies, are included in Appendix 2.

9. In recent years, a number of countries have undertaken establishment surveys to collect data on organizational change. Statistics Canada, with support from Human Resources Development Canada, has initiated a particularly ambitious project, the Workplace and Employee Survey, which involves a linked employer-employee survey covering a range of organizational, technological, and human resource issues.

10. While all aspects of organizational change suffer from data shortcomings, this is a particular deficiency in data on external practices such as subcontracting and out-sourcing. Many surveys concentrate on internal changes involving work reorganization and changing human resource and industrial relations practices.

11. This observation should be accompanied by the caveat that data-collection instruments are typically designed to capture innovations that have been codified in the form of formal policies and practices. Since large firms are more likely than small ones to formalize organizational changes in this way, it is possible that studies have overstated the enterprise-size differential. For more discussion of change in small organizations, see the summary of Focus Group 2 from the Ottawa conference in Appendix 2.

12. Trends in service and goods production, and the relationship between the two, are increasingly leading researchers to "convergence" theories that question the traditional distinction drawn between the two sectors.

13. A more detailed review of organizational change outcomes is presented in OECD (1996a, chapter 6).

14. The methodological problems include both data and analytical issues. It is difficult to assemble firm or establishment-level data that accurately describe human resource strategies and performance trends over a reasonable time period. There are also problems isolating the impact of human resource factors from other closely related factors (e.g., technology) which might also be significant determinants of performance. Finally, identifying the direction of causality is problematic - that is, do certain workplace strategies improve performance or does good performance lead to those practices? See the special issue of ***Industrial Relations*** (1996) devoted to the performance outcomes of human resource management practices and particularly the overview assessment by Ichniowski ***et al.*** Huselid (1996) provides another comprehensive overview of research in this area.

15. There are a number of hypotheses to explain this positive association. These include the potential for workplace innovation to increase employee commitment and motivation; to increase employee skills and know-how; to make better use of flexible technologies; and to enhance the quality of the labour-management relationship. For more detail, see the special issue of >Industrial Relations (1996).

16. This point was emphasized on a number of occasions at the Ottawa conference. As well, it was a theme of the workshop on Changing

Business Strategies and Organizational Structures of Enterprises. The issue of worker participation more generally was the focus of another workshop. See Appendix 1 for more detail.

17. This is evident in a number of countries, where skill differentials, measured by either increasing education or experience premiums, appear to be widening. For detailed discussions, see OECD (1993, chapter 5; 1996b, chapter 3).

18. A recent survey of workplace training in Canada found that training experiences among establishments were becoming more segmented in this way (Betcherman, Leckie, and McMullen, 1997 forthcoming). The correlation between existing human capital (measured by income or educational attainment) and access to workplace training is well established in the literature. Patterns of access to workplace training opportunities constituted a major point of discussion in the Ottawa workshop on Human Capital Development (Appendix 1).

19. For example, this polarization of working time is one of the major factors behind the changing earnings distribution in Canada. See Morissette, Myles, and Picot (1994).

20. For example, Applebaum and Batt (1994) describe how organizational innovation can differ across cultures and countries, and even within a single country. Using the United States as an example, they draw a clear distinction between "lean production" and "team production", two terms that are commonly, and often interchangeably, used in North America to describe innovative practices.

21. While there is no standard definition of "intangibles", in its most comprehensive form, the term includes technology, training, work organization, labour relations, management structures, links with other organizations, market development, and the acquisition of software.

22. The fact that the market value of corporations often exceeds the book value is taken as evidence that financial markets, to some extent, do take into account intangible assets. Research by Ernst and Young in the United States has concluded that 35 percent of investment decisions by stock market analysts are now made in part on the basis of non-financial information (e.g., management quality). However, in discussions on measuring intangibles at a workshop at the Ottawa conference and at a seminar following the conference, the consensus view was that this was very partial, sporadic, and unsystematic.

23. There have been some advances in this area in recent years. For example, in Sweden, Finland, and Norway, there is evidence of an increase in attempts to measure intangibles, especially human resources. However, overall interest is uneven and there are differing views on where the focus of action should be. For more detail, see the report on the Ottawa workshop on Efficient Resource Allocation (Appendix 1).

24. In theory, employees should bear (at least some of) the costs of general training through lower wages. However, it is difficult to empirically identify that this occurs, other than in formal apprenticeship-type programs that set trainee wages. Because of various market rigidities, it can be assumed that, in reality, firms tend to pay the costs of general training.

25. Another issue concerns the ability of unions to reshape organizing strategies in response to the effects of economic restructuring and flexible organizational innovation. The growth of small firms,

independent contractors, nonstandard employment, and home-based work all represent significant departures from the prototype workplace for union organizing and representation.

26. For a discussion of the relationship between equity and efficiency in a new growth theory framework, see Osberg (1995).

27. For a listing of recent OECD area country initiatives intended to foster firm-level organizational and technological change, see OECD (1997a forthcoming, Table 8).

28. More details on this initiative can be found in the notes on Workshop 1 (Appendix 1).

29. In the Ottawa workshop on Efficient Resource Allocation, there was some discussion that it would be helpful if the OECD were to develop guidelines for enterprises regarding accounting for intangibles. For more discussion on accounting for human capital assets, see Miller (1996).

30. In the IALS, "literacy" was defined to include three domains: prose literacy, document literacy, and quantitative literacy. There were differences across seven countries for which results were reported. However, in all cases, substantial numbers of adults could not move beyond the lowest literacy levels. The international results are reported in OECD and Statistics Canada (1995). For data in educational attainment, see OECD (1996c).

31. A disturbing conclusion of a number of studies has been that people with low levels of human capital, whether measured by educational attainment or an output indicator like literacy skills, are less likely to recognize their own deficiencies or the need to pursue further training or education. As one example, see the IALS results (OECD and Statistics Canada, 1995). The issue of access was prominent in the workshop on Human Capital Development (Appendix 1).

32. This does not preclude the possibility for conflict between the stakeholders and, obviously, there was much conflict between capital and labour over the decades of the 1950s, 1960s, and 1970s in many OECD area countries.

33. An interesting exchange at the Ottawa conference involved a proposal made by a representative of the OECD Business and Industry Advisory Committee and supported by a representative of the Trade Union Advisory Committee that the OECD secretariat set up a high-level tripartite meeting to reestablish the importance of job creation and to consider ways to move forward on that front.

34. This would have two effects in supporting workplace change. The first is the direct effect that stems simply from the substantial roles of governments in OECD area countries both as employers and as economic actors. There is also the indirect effect that governments can exert in the form of providing a model and in requiring certain desired practices from direct subcontractors.

Previous | Table of Contents | Next

Return to top of page

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

References

Appelbaum, Eileen and Rosemary Batt. 1994. ***The New American Workplace***. Ithaca, NY: ILR Press .

Betcherman, Gordon, Norm Leckie and Kathryn McMullen. 1997 forthcoming. ***Developing Skills for the Canadian Workplace: The Results of the Ekos Workplace Training Survey***. Ottawa: Canadian Policy Research Networks.

Betcherman, Gordon, Kathryn McMullen, Norm Leckie and Christina Caron. 1994. ***The Canadian Workplace in Transition***. Kingston, ON: IRC Press.

Huselid, Mark A. 1995. "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance." ***Academy of Management Journal.*** Vol. 38, No.3, pp. 635-72.

Industrial Relations. July, 1996. Vol. 35, No. 3.

Miller, Riel. 1996. ***Measuring What People Know: Human Capital Accounting for the Knowledge Economy***. Paris: OECD.

Morissette, René, John Myles and Garnett Picot. 1994. "Earnings Inequality and the Distribution of Working Time in Canada." ***Canadian Business Economics***. Vol. 2, No. 2, pp. 3-16.

NUTEK. 1996. ***Towards Flexible Organisations***. Stockholm: Swedish National Board for Industrial and Technical Development.

OECD. 1986. ***Labour Market Flexibility: The Current Debate***. Paris.

OECD. 1989. ***Labour Market Flexibility: Trends in Enterprises***. Paris.

OECD. 1993. ***Employment Outlook***. Paris.

OECD. 1994. ***The OECD Jobs Study Evidence and Explanations.*** Paris.

OECD. 1996a. ***Technology, Productivity, and Job Creation***. Paris.

OECD. 1996b. ***Employment Outlook***. Paris.

OECD. 1996c. ***Education at a Glance.*** Paris.

OECD. 1997a forthcoming. ***Flexible Enterprises***. Paris.

OECD. 1997b forthcoming. ***Enterprise Flexibility and Workplace Change: National Reports***. Paris.

OECD and Statistics Canada. 1995. ***Literacy, Economy and Society:***

Results of the first International Adult Literacy Survey. Paris and Ottawa.

Osberg, Lars. 1995. "The Equity/Efficiency Trade-off in Retrospect." ***Canadian Business Economics***. Vol. 3, No. 3, pp. 5-19.

Osterman, Paul. 1994. "How Common Is Workplace Transformation and Who Adopts It?" ***Industrial and Labor Relations Review***. Vol. 47, No. 2, pp. 173-188.

Perez, Carlota. 1983. "Structural Change and the Assimilation of New Technologies in the Economic and Social System." ***Futures***. Vol. 15, No. 5, pp. 357-75.

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Appendix 1

Workshop Summaries

Six workshops, as described below, were run in parallel sessions. Each workshop was held twice to allow conference participants to attend two workshops and participate more fully in the policy discussions. In each workshop there was an initial presentation by experts, followed by responses from enterprise and labour representatives, and general discussion.

In each workshop there was an initial presentation by experts, followed by responses from enterprise and labour representatives, and general discussion.

Workshop 1

Changing Business Strategies And Organizational Structures Of Enterprises: Investment, Technology, Product Development, Marketing, Subcontracting/Outsourcing, And Downsizing

Chair: Arne Eriksson, Ministry of Industry, Sweden

Experts: Shirley Seward, Canadian Labour Market and Productivity Centre, Canada; Yoshinori Satake, MITI, Japan

Discussants: Reinhold Enqvist, PKT-SME Foundation, Finland; David Coats, Trades Union Congress, UK; Jens Nyholm, Ministry of Business and Industry, Denmark

The changes that enterprises are adopting to increase adaptability are causing a shift from "complex organization and simple jobs" towards "simplified organization with more complex jobs". In the past, more complex organizations achieved economies of scale through vertical integration, capital investment, production of a long series of similar or identical products, and mass-marketing in stable environments. Simple jobs were built around strong hierarchical differentiation and an extremely fine division of labour. New simplified organizations, however, increasingly focus on core activities. Specialization is often accompanied by external networking and strategic alliances to complement internal assets. More complex jobs require improved management of internal resources (such as technology, human resources, market-building, and organization) to increase flexibility, responsiveness, and client orientation. They also call for the adoption of "high- performance" work environments, based on high skills and high trust, decentralized responsibilities.

Accompanying these shifts in strategy and structure is a shift in focus from simple capital investment and the accumulation of physical capital to more "intangible" investments in R&D, technology and innovation, human resources, management skills and organizational structures, market development, and all kinds of software. Product development - in both goods and services - is of increasing importance, as are product differentiation and a focus on client needs. These shifts have promoted the use of "subcontracting" (the external

purchase of inputs to final products) and "outsourcing" (the external purchase of service inputs such as cleaning and security, as well as business and technical services) to increase specialization and improve internal resource management. "Downsizing" as a strategy relates to an increased focus on core businesses and core activities, and "delayering" is used to increase direct responsibility of employees.

The strong consensus in this workshop, among both presenters and other participants, was that the changes described above work best when both labour and management cooperate in the process. Workplace change can achieve the goals of both workers (security) and management (productivity). But most workshop participants felt that, for the most part, cooperative change was not common and that, generally, cooperation occurred as a last resort.

Response to Crisis or Long-Term Strategy?

Often an immediate business crisis, rather than a longer-term strategic objective, is the necessary spark for change. Whether in response to dwindling market share, declining resource stocks, or technological change, labour and management often appear to come together as a last resort, especially in the North American context. Crisis-induced adjustment was smoothest for firms with an established history of good labour relations or experimentation with alternative kinds of work organization, as was more likely to be the case in Europe.

Workshop participants concluded that although a crisis may be an effective catalyst, it should not be the driver of change. Longer-term strategic thinking increases control over the change process, in ***anticipation*** of the crisis rather than in reaction to it. The inability of stakeholders to quantify their benefits and costs, and consequently to argue the case for cooperative change, was identified as a major impediment to more strategic approaches. This, coupled with a managerial preoccupation with share-holder value, is creating a need for better indicators of the benefits and costs of certain kinds of change.

There was general agreement among participants that there is no single "best practice" or approach to change. Decisions have to take into account the specifics of the situation. Yet many participants spoke of what might be called "best principles". There was also a consensus that both labour and management needed to be equal partners in change.

Policy to Support Positive Change Processes

A spectrum of policy responses was considered, from "getting the framework conditions right" to directing subsidies to consulting firms, to providing public money to support networks of similar firms facing similar problems.

Different policy elements discussed included:

- general liberalization leading to improved incentives to innovate;
- labour deregulation by means of a ***simplification*** of labour law rather than removal of worker protection;
- public encouragement of networks to support cooperative information sharing;
- support for training. There was no consensus on the relative roles of private and public provision of foundation skills. Skills-specific learning would benefit from closer relationships between business, labour, and training providers. Skills upgrading was cited as a major factor in minimizing unemployment related to changes in industrial structure.

The discussion also focused on timing issues. Should policy intervene at this "pre-crisis" stage or should it be directed to firms already facing a crisis and seeking cooperative solutions? In the specific case of small and medium-sized

companies, the skills and resources of the entrepreneurs eventually run out; this is the critical time for policy support.

Workshop 2

Human Capital Development: Balancing The Needs Of Enterprises, Workers, And Society

Chair: Doug Giddings, HRDC, Canada

Experts: Riel Miller, OECD; Kathryn McMullen, Canadian Policy Research Networks, Canada

Discussants: Laurie Bassi, American Society for Training and Development, USA; Robert Harris, Education International

Knowledge now plays a more crucial role in economic processes. There is an emerging consensus that ongoing human capital development is a crucial ingredient for firm productivity, growth, and individual welfare in the "knowledge economy".

Human capital development positively affects the bottom line. Firms that include a focus on human capital development are more likely to report improved revenues and productivity than firms that fail to invest in the knowledge and skills of their workers.

The imperative of higher, and often different, knowledge and skills to support employability in the knowledge economy makes access to human capital investment an important consideration for a growing number of individuals. There are substantial returns on investments in workplace training. However, current patterns of human capital investment, both within and among firms, appear to contribute to a polarization of individual economic opportunity. Within firms, participation in job-related training tends to be quite uneven, rising dramatically with the amount of human capital workers already possess. Yet the new employment arrangements (e.g., contract work) are not as amenable to employer investment in training as traditional employment arrangements. Some firms are foregoing human capital investment altogether, while others have deepened their commitment to it, often concentrating on "core" employees.

Participants discussed how public policy could help workers, firms, and society make human capital investments that are appropriate to the challenge of a more knowledge-based economy.

Changing Business Strategies Can Contribute to Increased Productivity and a Better Sharing of Gains

The high fixed costs of human capital development in a knowledge economy increase the risk that small firms and individuals will not invest in the amount of human capital necessary to support their personal competitiveness. Many business and education leaders spoke of forming consortia to share expertise and pool the risk of human capital formation. In Canada, for example, sector councils represent an emerging labour market institution aimed at addressing private sector impediments to investment in training. Business representatives also spoke of the need for large firms to demonstrate leadership in the area of human capital formation by training their own suppliers, thereby creating a corporate learning culture.

Individuals, particularly those currently unemployed, but also those with low attachment to either the workplace or a single employer, face particular challenges in equipping themselves for new economy jobs. The relatively low

tuition rates in some OECD member countries, and the continued disproportionate use of education and training opportunities by different socio-economic groups, suggest the existence of cultural and attitudinal impediments to learning that need to be addressed at all levels. Tools to support individual human capital development might include income-contingent repayment loans and lifelong training vouchers or personal accounts.

Impediments to Change

Participants observed that the impediments to greater human capital formation are largely systemic in nature. As such, significant consensus, coordination, and leadership will be required to orchestrate positive change.

It was noted that there is little agreement over the role public education should play in a knowledge economy. Some view education as a narrow tool in support of specific learning, while others perceive it as the means by which broader, more generic skills are acquired. It is difficult to build an appropriate infrastructure to support the provision of education and training services without a consensual vision for the future. Some other impediments to change include:

- psychological barriers to learning at individual and socio-economic group levels;
- the lack of clear, effective, and portable indicators of human capital such as occupational and learning standards;
- overemphasis on credentials rather than outcome-based competency assessment;
- inadequate knowledge of future skill demand to support investment decisions;
- inadequate measurement tools to accurately assess or measure competencies.

Change Through Partnership

Workshop participants generally agreed that positive change in the area of human capital development would be most successfully achieved through effective partnerships. In some countries, partnerships in the human capital area are in the process of transition, and strong learning partnerships are not yet in evidence. It should also be recognized that attitudinal and cultural resistance to a learning society poses an enormous challenge for the emergence of learning partnerships. Resistance to learning and training may reflect insecurities about new forms of work, but it may also signal that individuals are uncertain about the requirements of the learning process and their chances of success. Reluctance to learn may suggest the existence of more fundamental issues related to actual readiness and ability. In other words, support for learning in a knowledge economy is contingent upon understanding the links between learning, literacy, and psychological receptivity.

In surveying partnership developments overall, there seemed to be room for optimism. Within firms, for example, there appears to be some movement towards human capital accounting and prior learning assessment. There is also a growing recognition of the need to replace discrete training "events" with a continuous learning process that is more focused on results and improved performance. Increasingly, the spread of human capital development requirements and infrastructure within sectors is achieved through the use of consortia. Sectoral approaches to human capital development allow firms to share the risks as well as the expertise in these areas, thus encouraging greater private sector investment.

Participants felt that, since governments have a vested interest in human capital development, it is most appropriate that they assume responsibility as mediators of change in this area.

Workshop 3

Employment Contracts And Working Conditions: Employee *Commitment, The Distribution Of Work, And Enterprise Adaptability*

Chair: Lars-Erik Andreasen, DGV, European Commission

Experts: Uwe Blein, IAB, Germany; Paul Lanoie, École des hautes études commerciales de Montréal et CIRANO, Canada; Michael Huberman, Université de Montréal et CIRANO, Canada

Discussants: Tammy Johns, Manpower, Canada; Julie White, Communications, Energy, and Paper Workers, Canada

To achieve changes that enhance flexibility, enterprises are faced with two possible approaches to managing their human capital resources. One is concerned with increasing internal "functional" flexibility, placing an ongoing high priority on recruiting skilled and educated people who are trained and retrained to keep skills current. The result is a high skill and high trust workplace. This approach is often married with decentralization, so that responsibility is pushed down to the level of these highly skilled workers. The other strategy is based on "numerical" flexibility, focusing much more on changing the quantity of labour inputs to match demand. This may be accomplished by hiring and firing workers, changing the length of working time, altering the distribution of working hours, and using "contingent workers" (temporary employment or part-time contracts) or external (self-employed) contractors. Many firms adopt both functional and numerical strategies by building up a core group of high skill, long-term, high trust employees, while also employing a growing number of contingent employees either directly or through outsourcing and subcontracting practices.

It will be difficult to achieve better outcomes for enterprises and workers if enterprises require continually higher quality human resources and other inputs, and increased responsibility ("high skill", "high trust"), while an increasing number of workers are contingent (temporary, part-time, nonstandard), with few or reduced benefits (pensions, sick pay, holiday pay). More important, these contingent workers have little or no access to the training, skill replenishment, and skill development necessary to meet their long-term needs or those of enterprises.

In addition to the growth in alternative work arrangements - short-tenure, temporary, part-time, and "own-account" self-employment - considerable attention is being paid to working time. Western European countries and Japan exhibit a high level of awareness and public concern over working time reduction and flexibility, and in recent years have achieved shorter work weeks. Over the same period, the less regulated labour markets in North America have seen longer working hours and more flexible working times and arrangements. For example, in Canada there has been a polarization, with more people working either short or very long hours. The increase in short-time work is driven by the greater number of women and young people available for part-time jobs and the growing preference of many employers, especially in services, for the cost savings and flexibility of part-time work. The growth in long working hours is due to an increasing demand for highly skilled workers, slow economic growth, high unemployment, fears of job loss, and employer preferences for using overtime to meet increases in demand.

In general, the distribution of work and working time is shifting towards employees who are skilled and relatively well paid. For firms, longer hours can mean higher output, lower average overhead costs, and higher profits, but they can also mean costly replacement of burnt-out employees, low morale, and dulled creativity. Innovations in the distribution of work and working time, such

as job sharing, have the potential to enhance firm productivity and contribute to better work/life balance for employees. Workshop participants agreed that the success of these arrangements depends on employees choosing and committing to work sharing and working time arrangements.

Core vs. Peripheral Worker Issues

Considerable discussion in the workshop focused on the definitions of "core vs. peripheral" and "contingent workforce". For some, the term "peripheral" is not appropriate because it suggests a negative view of a worker's productivity and implies an insecure, low-paying job. However, work that is peripheral to the firm does not necessarily involve a job of inferior quality, especially for many self-employed workers. The characteristics and problems of workers in jobs at the periphery of the firm may be very different from those at the periphery of the labour market.

Solutions to precariousness should be based on workers and not necessarily their jobs. In particular, the skill level of workers provides a much better indicator of vulnerability in the labour market. Thus, policy initiatives should focus on "groups at risk", such as those with low levels of education, found in both core and peripheral jobs.

The definition of a "contingent" worker varied considerably from one country to another. However, all participants recognized that any definition of "contingent" work should reflect the preferences of workers. For example, while those who work part-time by choice should not be classified as contingent, those working part-time involuntarily should.

Temporary employment agencies provide an important service in helping workers meet their work arrangement preferences. Many of these agencies provide formal training, and the work experience gained by employees at temporary placements is often a stepping stone to more stable employment. In addition, the agencies contribute to firm flexibility.

When workers choose to be in "non- standard" jobs, there does not appear to be much scope or need for policy action. However, to the extent that their employment does not give them the same access to social benefits as core workers, society has a responsibility to provide acceptable alternatives.

Core vs. periphery worker discussions tend to focus on the problems of peripheral workers, with little said about the problems of core workers. For example, in some firms in the Canadian paper industry, the core-periphery model has often been adopted following a downsizing exercise prompted by restructuring or technological change. There is evidence that, in such cases, the surviving core workers often continue to feel insecure. The seniority system frequently breaks down, adversely affecting older workers. As well, workers may feel that they have reduced opportunities for movement and may experience increased work dissatisfaction.

Work Sharing

Work sharing is more prevalent in Europe than in North America. Two factors are thought to explain this difference: European workers tend to have more positive attitudes towards working fewer hours with less pay to avoid unemployment; and institutional mechanisms such as restrictions on employee dismissals and compensation for partial unemployment tend to be more prevalent in Europe. By contrast, in North America lower overall wage levels may make workers less open to the reductions in pay which accompany reduced hours of work.

When is work sharing an effective solution to unemployment? Work sharing was seen as potentially advantageous when a firm is confronted with a shock

that is cyclical in nature. In these situations, work sharing can be an effective measure to help maintain skilled labour, reduce future training costs, and preserve employee morale; consequently, public policy interventions may be warranted to encourage the development of such initiatives. Moreover, since experience in the planning and coordination of work sharing plans may contribute to their success, there may also be a role for government in diffusing information about best practices from successful work sharing experiences.

On the other hand, it is not clear whether work sharing is an appropriate solution to structural unemployment. There is no guarantee that a firm engaged in work sharing will be able to restore normal hours or even maintain the reduced hours, when faced with a structural decline in demand. In addition, evidence from Germany has shown that, although participation in work sharing is associated with higher employment in the short-run, in the long-run it tends to coincide with lower growth. The creation of wealth requires the creation of new jobs, not just the sharing of existing jobs.

From a policy perspective, some have argued that work sharing could combat long-term unemployment by increasing the circulation of the unemployed into jobs. For example, leave replacement schemes, in which an unemployed worker replaces an employee on training leave, could provide the unemployed with work experience and maintain their attachment to the labour market. However, these programmes do not create new jobs. A policy mix that combines work sharing initiatives with policies that foster growth may be more successful.

Is There a Trade-off Between Efficiency and Equity?

Common to discussions of both work sharing and core vs. periphery workers was the question of whether these involve a trade-off between efficiency and equity. Some argued for the development of a "new" model in which social cohesion is the primary objective, and the emphasis for public policy is on wealth creation, not redistribution. Others contended that there is no conflict between equity and efficiency and that these objectives should be viewed as interconnected rather than mutually exclusive.

Workshop participants concluded that different specific approaches have different advantages and disadvantages in different circumstances. We need to look at what works and what does not, given the institutional, cultural, and economic context.

Workshop 4

Systems of Compensation: Linking Workers' Pay to Firm Performance - Motivations, Outcomes, and Possible Impacts on Wage and Earnings Inequality

Chair: Robert Bednarzik, Department of Labour, USA

Experts: Caroline Weber, Queen's University, Canada; Yuji Genda, Gakashuin University, Japan

Discussants: David Dorward, Canadian Imperial Bank of Commerce, Canada; Dominique Savoie, Quebec Federation of Labour, Canada

One of the main features consistently associated with new workplace strategies is change in the basis for compensation. Increasingly, compensation is aimed at strengthening incentives to improve productivity, rather than placing a value on a particular job or an employee's seniority. Compensation may be linked to anything from financial profitability at the level of an enterprise or operating unit

to non-financial measures, such as increased quality or the achievement of certain business plan objectives by operating units, work groups, or individuals. It may also be linked to the skills and competencies of workers or their demonstrated capacity to perform multiple tasks. Performance-linked compensation may take the form of stock-options, profit-sharing, bonuses, or regular adjustments to pay rates. Another form of variable pay, intended to alter the cost structure for a firm, is the linkage of compensation to employment status. For example, a firm may offer premia to compensate temporary workers for the higher risk, reduced employer-provided benefits, or lower wage rates that come with their weaker market position.

Variable pay is one of the features of new workplace strategies that is most consistently associated with improved enterprise performance. Yet its use is also associated with widening wage and earnings differentials that may contribute to a loss of social cohesion. Moreover, the long-term sustainability of such schemes is uncertain if, for example, short-term performance criteria upon which variable pay is based are not sufficiently linked to incentives for renewing investment in human capital. Workshop discussions revolved around the contribution of pay/performance systems to productivity, impediments to implementation and outcomes, and the strengths and weaknesses of pay/performance systems.

Pay/Performance Systems Contribute to Productivity and Sharing of the Gains

Linking pay to group performance rather than individual performance seems to work best to increase productivity.

Linking pay to skills can enhance the quality of work and reduce work-related accidents, but may not result in increased productivity. To implement skill based pay systems, skills measurement must be achievable, and training must be equally available to all employees.

Pay/performance systems used in the context of a broader human resources strategy will produce better results than a compensation system introduced in isolation. However, the specific best practice elements of the broader strategy are not clear.

Successful implementation of pay/performance systems is more likely when workers are involved in formulating the system and when the workforce is skilled and highly motivated. In addition, pay/performance systems work best when they are negotiated between workers and management rather than imposed on workers.

Impediments to Implementation of Pay/Performance Systems

Implementation of pay/performance systems can be administratively costly, especially for smaller firms less likely to have sufficient resources for human resource administration.

Pay/performance systems are much more likely to be successful if workers believe that the system will pay off in the foreseeable future. Hence an unstable economic environment may pose an impediment to implementing such a system.

Certain institutional rigidities may serve as barriers to implementation. For example, unions may view the system as a replacement for salary increases, or the broader wage policy of an industry may not support pay/performance schemes.

Finally, it may be difficult to get agreement between stakeholders on how to measure performance.

Impediments to Outcomes

To be effective, the compensation system must be linked to the workplace structure. For example, a system based on individual performance will not work well in an environment structured around group or team efforts.

Pay/performance systems may hinder job rotation within an enterprise if performance levels (and therefore pay) are initially reduced when employees change to jobs in which they have yet to build up proficiency.

Strengths and Weaknesses of Pay/Performance Systems

Stengths - Pay/performance systems can align workers more closely with the long-term goals of the firm, resulting in better communication, increased product quality, longer job tenure, and greater acceptance of new technology. In addition, these systems may lead to more training and a more highly skilled workforce.

Weaknesses - Pay/performance systems may be inconsistent with pay equity goals. Employees doing the same task may earn different amounts if one has more training than the other. In addition, these systems may contribute to worker insecurity if they are designed without an invariant base pay component. Pay/performance systems may also lead to unintended results, such as increases in on-the-job accidents as employees seeking higher wages strive to increase output/productivity.

Workshop 5

Workers' Participation and Responsibility: Limits, Possibilities, and Rewards

Chair: Timo Kaupinnen, Ministry of Labour, Finland

Expert: Kevin O'Kelly, European Foundation for the Improvement of Living and Working Conditions, Ireland

Discussants: Henri Pinaud, Centre national de la recherche scientifique, France; Laurie Harley, IBM Canada, Canada

One of the assumptions underlying the shift towards "high skill", "high trust" workplaces is that they hold advantages for both enterprises and workers: if workers are more involved in what were formerly management functions and have greater delegated responsibilities at all levels, the enterprise will be more efficient, making better use of untapped human resources and innovative potential. Productivity is improved to the benefit of all.

However, there are a number of issues and problems to be resolved in implementing strategies based on greater participation and more responsibility. The first is institutional, centred on the relative roles of management and workers. In English-speaking countries, particularly, the adversarial nature of management- labour relations has created hostility to further participation and involvement on both sides. Employers are concerned that participation strategies will undercut their authority, making management (even by consensus) more difficult; they are also uncomfortable with divulging information previously held by management only. Workers see being coopted as a potential problem, and are concerned about bearing more responsibility and carrying the costs of management decisions. Although there are many examples of workplaces where management and union structures are becoming more adaptable, the traditional attitudes remain deeply rooted.

On the practical side of implementation there are various options and choices

to be made in the way that participation is organized and responsibilities are distributed. There are significant differences in the organization of different types of participation, some of which include: individual consultation (informal discussions, formal suggestion schemes, attitude surveys, two-way appraisal); group consultation (quality circles, upward communication groups); individual delegation (greater responsibilities for scheduling, quality, or customer relations , job enlargement, job rotation); group work (essentially task integration and decentralization of decision-making, either voluntary with self-management, or mandatory and organized by management); and high performance work systems (integrating many of the above kinds of participation, depending on sector, plant size, and tasks). Furthermore, the extent of participation, how it is implemented, and how it is rewarded, will determine what impact the strategy has on firm performance and sustainability.

The workshop participants focused their discussion on models of participation that involve direct relationships between employers and employees. Their insights are organized under three key questions - the what, why, and how of direct participation (DP).

What Is Direct Participation?

Worker participation at the individual or group level may be viewed along a continuum, ranging from the representation of workers by their unions to the direct participation of individual workers with their employer/manager. The nature of worker participation ranges from ***consultation*** - being consulted by the manager about aspects of working conditions (e.g., hours of work, training needs), to ***delegation*** - having a certain degree of decision-making power for the organization of work and quality control. Direct worker participation may be primarily consultative, or may involve the delegation of decision-making for a full range of work and workplace-related matters, including the sharing of financial risk and reward. While in unionizedsettings, unions are obviously involved in representative participation, they tend to be only indirectly or not at all involved in DP because of its emphasis on the delegation of authority to individuals or work teams.

Workshop participants agreed that the most important aspect of DP is communication. The various forms of direct participation tend to be based on a high level of mutual interest in the well-being of the enterprise, and a high level of collaboration in achieving corporate success.

Why Use Direct Participation?

Employers appear to consider DP as a strategy to support corporate survival in a global economy characterized by increasing competition and the need to provide both product and service - "the total solution" - to customers. However, preliminary information from a recent poll of employers in European Union countries seems to indicate that the adoption of DP is only partial, and tends to exhibit characteristics of consultation rather than delegation. The preliminary survey information indicates that there are significant gaps in the provision of information and employee communication. Nonetheless, employers tend to believe that DP reduces the need for unions.

Workshop participants concluded that the type of DP is determined by the structure and management culture of the organization at issue. In traditional hierarchical structures where the role of management is command and control, it is more difficult to successfully introduce direct participation. When management plays a leader ship role, working in partnership with workers, the delegation of decision-making to both individual workers and work teams is more successful. It appears that the greater the economic pressures on firms to be competitive, the greater the need for flexibility, and for the introduction of worker participation.

Discussion in the workshop indicates that unions feel ambivalent about the

introduction of DP, since it is often related to the type of restructuring that results in job loss and heightened job insecurity. The preliminary survey information supports this belief, showing that enterprises that had introduced DP experienced not only improved quality of service and decreased sick leave for employees, but also job reductions for both employees and managers, and more outsourcing. Although DP is an empowerment process, it seems it does not prevent workers from feeling job insecurity and anxiety. In addition, the introduction of DP places greater responsibility on employees without necessarily providing an increased share of reward. However, some workshop participants indicated examples of profit sharing with employees.

Some believe that with DP, workers feel more secure as participants in the fortunes of the company and in their own future. Others consider job security as a pre-condition of successful employee participation; employees cannot participate if they regard the process as a reduction exercise.

Throughout this discussion certain common themes emerged: the need for employee choice, for good communication, and for on-going training of employees. For some, the only real job security comes from the continuous retraining that would allow employees to adapt to the emerging needs of the organization.

Implementation of Direct Participation

It appears that the methods of introduction and acceptance of DP vary. Employers tend to make the decision from the top down, starting with a vision of collaborative engagement in corporate survival, efficiency, and customer satisfaction. To implement this vision, a strategy is designed, tactics are determined, and finally the plan is operationalized. From the workers' side, the concerns are driven from the grass roots level. The degree of employee involvement progresses through representation (collective bargaining), direct participation, co-determination, and finally co-decision-making on financial matters.

Participants acknowledged that managers do not have all the knowledge required for decision-making. They need to involve workers. Nor can managers necessarily count on the obedience of workers in this newly empowered work arrangement. The key ingredient in the workplace is trust. Much discussion centred on how to engender a working environment of trust, while maintaining the enterprise need for flexibility and the worker need for security, fairness, and equity. Some believe that the best survival strategy, for both employers and workers, involves building a better product and ensuring competitiveness. While it was acknowledged that there are diverse ways to achieve competitiveness, collaborative processes and structures are seen to be efficient and effective contributors.

The workshop discussion considered the role of the state in creating or ensuring a positive environment for worker participation, based on employee choice and employer flexibility. Participants identified the policy challenge as a need for regulation that would guard against abuses in the system, and protect the most vulnerable, without diminishing the flexibility needed by employers to respond to competitive pressures. Additional roles for government include the provision of information, support for lifelong learning, and access to training.

It was suggested that the OECD could foster work in this area by promoting more dialogue between workplace practitioners and public policy makers. It would be helpful to hear from organizations leading workplace change.

What Is the Future for DP?

DP originated with unions in the postwar period as a means of ensuring fair treatment, job security, and fair compensation as collective rights and

protections for workers. This was consistent with the values of that period in history. However, the 1970s and 1980s have witnessed the rise of individualism as a societal value and the increased use of models that stress individual determination. Participants questioned whether the future will see the re-establishment of the values of collectivism and solidarity, or a continued or renewed emergence of individualism.

Workshop 6

Efficient Resource Allocation: The Challenge of Making Long-Term Investment in a Rapidly Changing World

Chair: Jonathan Low, Ernst & Young, USA

Expert: Ulf Johanson, Stockholm University, Sweden

Discussants: Helge L-vdal, Norwegian Confederation of Business and Industry, Norway; Keith Drake, University of Manchester, UK

In a climate of economic volatility, technological innovation, changing customer preferences, and intense competition, the survival of enterprises depends on their capacity to adapt to change. The task of investing in this capacity is made more complicated not only by the greater uncertainty over the timing and level of payoffs to traditional tangible investment, but also by the growing importance of "intangible assets" as determinants of the capacity to adapt.

"Intangible assets" include research and innovation, as well as the management skills, workplace structures and practices, marketing ability, and software that ensure that such know-how is applied where it will add the most value. These intangible assets may be embodied in products, such as financial services, or they may influence the use of tangible capital, as in the manufacturing or transportation industries. Intangible assets enable firms to cope with uncertainty, and increase the likelihood of sustaining high long-run rates of return.

In contrast to tangible assets, intangibles are practically invisible. There are no conventions for counting or valuing them in the financial statements of enterprises, or for disclosing them elsewhere. Thus, although managers and investors have full information on tangible assets such as factories and machinery, they lack systematic or transparent information on the intangibles that increasingly determine how effectively such plants and equipment are used, and that constitute the driving force for new high-growth, knowledge-intensive activities such as software production and business services.

There are gaps in information on intangibles, both inside and outside enterprises. The result is a lack of vital information to evaluate company performance and potential, and a reliance on incomplete, nonstandard information. Both of these appear to distort the investment decisions of managers, and to interfere with the functioning of capital markets as mechanisms for achieving efficient allocation of capital. This workshop focused on: the range of issues surrounding how and how much managers, capital markets, and workers will benefit from better measurement of the range of intangible assets that underlie an enterprise's competitive strengths and weaknesses; the development of new tools for understanding the importance and impact of these intangible assets; and the different ways of building these assets.

The discussion in Workshop 6 can be summarized by reference to several key questions:

What evidence is there of a shift in the relative importance of tangible and intangible assets?

The view that intangible investments are of growing importance was supported by recent work by Robert E. Lucas (***Econometrica***, March 1993), which concluded that human capital is more important than physical capital in explaining economic growth. Workshop participants indicated that case studies on individual firms support this conclusion.

It was noted that the difference between market and book value among Swedish companies has increased substantially over the past ten years, particularly for knowledge-based firms. This suggests that investment in human resources and other intangibles is of significant and growing importance to firm value. Research in the United States by Ernst & Young supports this view, concluding that 35 percent of investment decisions by stock market analysts are made on the basis of non-financial information.

In addition, the more stock market analysts use non-financial information, the more accurate are their forecasts of a firm's earnings potential. The Ernst & Young research demonstrates that firms showing evidence of improvements in non-financial or intangible areas (e.g., quality of management) significantly increase the value of their stock.

In addition, the UK government concluded that for the manufacturing sector, investments in intangibles are at least as important as investments in tangible assets. It was also noted that governments increasingly recognize both the link between intangibles and competitiveness and the importance and timeliness of making advances in this area.

How strong is the demand for more and better information on intangibles?

Research in Sweden has concluded that in the 1990s, a significant number of firms, unions, and local authorities began to experiment with various human resource accounting practices. This created a demand for information that has resulted in a growing field of literature on the topic of measuring and reporting on investments in human resources; in more universities teaching these subjects; in greater media interest in the transparency of investments in intangibles; and in a continuing discussion among legislators about the merits of imposing legal obligations on firms to account for personnel costs in their annual reports.

In Norway, over the past four years, the link to competitiveness has prompted a significant shift in managers' perception of the importance of investments in intangibles. However, the level of interest is not uniform, largely because there is no common framework for identifying the full range of intangible assets, for understanding the link between these investments and competitiveness, and for reporting to both internal and external stakeholders.

The greatest information need may be for evidence of the importance of intangible investments to macroeconomic performance. At this time, it is more important to establish the link to competitiveness than to develop detailed accounting tools, since awareness of the issue must precede the standardizing of accounting practices.

Where can improved information on intangibles be found?

There is at present no standard definition of intangibles. The United Kingdom's definition includes investments in technology, training, the way work is organized, labour relations, management structures, the formation of links with other organizations, market exploration and development, and the acquisition of software. In Finland, however, the Ministry of Labour approach to defining

human resource - related intangibles is more heavily focused on management and health and safety considerations in the workplace. Ernst & Young incorporates other factors, including the capacity of firms to ensure customer satisfaction and to communicate effectively with investors.

Given the absence of a common definition of intangibles, participants did not discuss information needs for specific categories of intangible assets. That said, it was agreed that there is a need for increased knowledge of the link between investments in intangibles and firm performance, the connection between specific intangible investments and firm performance, and the interrelations between intangibles. In the workshop, there was no clear consensus on which intangibles should be measured and which practical approaches to measurement should be supported.

The importance of relying on quantitative and qualitative information was stressed. By their very nature, intangibles are difficult to quantify. Measuring stakeholders' perceptions of the relationship between intangible investments and firm outcomes can also yield valuable information.

What are the strengths and weaknesses of the various approaches to measuring and disclosing information on intangibles?

The workshop addressed two concepts for measuring and disclosing information on intangibles. The first concept, Human Resource Cost Accounting, has been discussed over the past thirty years. It involves assigning monetary figures to items not traditionally measured in monetary terms. There is some evidence to suggest that this approach changes attitudes and decisions with respect to investments in intangibles; however, its application is limited to improving decision-making and the allocation of resources in the area of human resources.

The second concept, the Balanced Score Card, has been under discussion more recently. It involves giving balance to the traditional financial perspective by introducing non-financial indicators. Its strength is centred on a new approach to assessing the value of investments in intangibles. However, by straying from the more familiar approach, this tool may prove less persuasive to managers and other stakeholders.

It was concluded that work should continue on both approaches, in recognition of the non-homogeneous perspectives and needs of different stakeholders.

What steps might various stakeholders take to improve investment decisions with respect to intangibles?

Participants suggested that in the medium -to long-term, the OECD might consider developing guidelines to provide clarity and consistency on the measurement and disclosure of information on intangible investments by firms. In the short-term, developing guidelines would require a consensus on the definition of intangibles; an awareness of the significance of intangibles to economic performance; a better understanding of the value of the various measurement and reporting approaches; knowledge of the impact on financial performance of various combinations of investments in intangibles; and an understanding of the learning and decision-making processes of stakeholders in order to better appreciate how decisions and performance outcomes might be influenced.

In addition, firms need to continue experimenting with different ways of measuring and reporting on the impact of their investments in intangible assets.

Previous | Table of Contents | Next

Return to top of page

Last Modified: 2002-06-07 Important Notices

Changing Workplace Strategies

Achieving Better Outcomes for Enterprises, Workers, and Society

Appendix 2

Focus Group Summaries

Three focus groups were held to explore specialized topics which were not covered in the plenary session or workshops, but which were nonetheless important to the conference agenda. The focus groups were designed to allow conference participants to exchange information and views regarding individual OECD countries' experience in three areas: surveys of organizational change; small and medium-sized enterprises; and temporary employment agencies .

Focus Group 1

Surveys of Organizational Change: Design and Experience

Chair: Jean-Pierre Voyer, HRDC, Canada

One of the lessons emerging from the 1980s and 1990s has been that improvements in productivity and innovation from investments in new technology require considerable accompanying investments in human resources, as well as the reorganization of firms' internal structures and external linkages. This has been borne out in anecdotal case studies, and in a rapidly growing case study literature from management consultants and business schools. Good business performance appears to depend not only on having satisfactory initial endowments of intangible and tangible assets, but also on the capacity to adapt to changing conditions by continually renewing, reconfiguring, and redeploying these assets. An enterprise's adaptability is increasingly important to its performance.

Organizational change is designed to meet two major challenges: the absorption of the technology itself and the use of that technology to meet growing global competition. Firms restructure their operations to respond to competitive pressures in two main ways: internally, for example, by changing workers' responsibilities and tasks and altering the relations between them; or externally, by making greater use of external purchases of goods and services or creating co-operative networks for the supply of intangible inputs (R&D, design, software, skills, marketing). Firms often combine both internal and external reorganization. Economic restructuring also takes place through the birth and growth of new firms and the contraction and death of existing firms, and although this turbulence is not part of the surveys to be discussed, it is a complementary part of economic adjustment.

Apart from partial case studies, until recently, there has been very little consistent survey-based information on the ways that enterprises adapt to changing conditions, and how their methods depend on the characteristics of the firms, public policies, and institutional arrangements.

Focus Group Results

This focus group was designed to review recent large-scale, economy-wide, multi-firm surveys of organization, technology, human resources, and

organizational change, and their use in guiding policy development.

The focus group discussion centred on three main questions: What information is needed in these surveys? What are different countries presently doing with workplace 53surveys? Do we need to adopt common standards to make useful cross-country comparisons?

What information is needed in these surveys?

Participants saw the need for a wide range of information. The UK raised the issue of core vs. peripheral employment. It was also suggested that we need to determine whether changes occur as a "reaction" to crisis, or whether they are "strategic". In the former case, change may not be sustainable once the crisis passes. A US participant spoke more broadly of the need for information on training, workplace practices, and new technology. Finland identified a need for information on organizational change and the associated use of human resources. In France, efforts have been made to link survey and administrative data.

In this context, a Canadian participant indicated that, in Canada, because administrative data is so cost-effective, it has always been tapped first for identified information needs. It is clear that this approach will not sufficiently meet needs for information on workplace change. Two survey options are available: a "one-off " survey which would provide information for a point in time (Canada's innovation surveys were cited as examples), or longitudinal surveys which allow for analysis of cause and effect .

It was noted that we lack well-defined "models" which could provide a stronger underpinning for survey work. The question was raised whether surveys should be driven by an agreed model, and whether academics should be engaged in developing this model.

By way of summary, the French delegate posed fundamental questions: How will technological or organizational change affect employment? What are the implications for the structure of jobs? How can we develop surveys which can disentangle cause and effect? Participants generally agreed with this summary.

What are different countries presently doing with workplace surveys?

Virtually every country represented in the focus group is involved in the development or production of workplace surveys, but the approaches vary considerably. Canada, Denmark, Finland, France, Mexico, and Sweden appear to be the most active. The UK has had point-in-time surveys that address some workplace issues. Germany has conducted a detailed panel survey with links to administrative records. Italy has also concentrated on administrative records. It was agreed by all that the potential usefulness of such administrative data is dependent on a country's regulatory and statutory requirements.

A World Bank representative spoke of its work in relating training to productivity in developing countries. Most people agreed that a lot of academic research on organizational change is "theoretical", and that there would be much to gain from collecting simple data instead of complex indicators of change with "widely unexplained variance". Participants generally agreed that specific hypotheses and basic information needs should guide further development.

Do we need to adopt common standards to make useful cross-country comparisons?

Participants agreed that the OECD has an important role to play in supporting the collaborative development of a template or set of common standards for survey design. Although significant information exchange has already taken place, survey development in this area is still in its infancy. Input from member

countries is still needed. For example, a Canadian participant observed that a comparison of how particular countries are measuring technological change at the micro, workplace level would be extremely valuable.

Focus Group 2

Small and Medium-Sized Enterprises (SMEs) and New Enterprises: A New Paradigm for Policy?

Chair: Graham Vickery, OECD

Small and new enterprises may face particular problems in adjusting to new competitive challenges in areas such as R&D and technology, organizational restructuring, globalization, and the financing of new kinds of operations and expansion. These problems are often associated with market failures in supply of, or demand for, new kinds of intangible inputs (business services such as R&D and technology, design, software, skills, marketing), or with the inability of small firms to effectively absorb and use new business inputs. There may also be serious shortcomings in the external environment which hinder small firms' adoption of technology, organization, or other intangible factors of production.

To the extent that costs of R&D, technology generation, and meeting associated standards are high or are increasing more rapidly than other costs, smaller firms and businesses may face special problems. A number of issues may need to be tackled:

i. where there are economies of scale in R&D, government programmes should give consideration to size-sensitive regulatory, administrative, or other hindrances to small business participation (based on the usual market failure arguments advanced to justify government intervention in R&D: positive externalities or high social benefits, large uncertainties, or lumpiness of projects);

ii. compliance procedures associated with R&D and new technologies should not be unnecessarily costly or long, and national and international compliance procedures should be harmonized and simplified; and

iii. small businesses should not be discouraged from grouping together to achieve economies of scale in R&D when necessary.

A second issue of importance to smaller firms concerns access to, and use of, information. As competition increases, the continual reconfiguration of enterprise resources is an increasingly important part of strategy. However, information on competition, new flexibilities, and enterprise organization is not costless. To the extent that there are economies of scale in acquiring, assimilating, and using information, smaller businesses with few financial or management resources to achieve such economies find themselves at a disadvantage. Smaller firms entering global markets face further challenges if information about foreign markets is difficult to obtain, if there are problems in setting up operations in foreign countries, or if there are other costly and time-consuming thresholds to overcome.

Issues which may require attention include:

i. ensuring that public information affecting small firm strategies and behaviour is easily and cheaply available, and that there are no particular regulatory or administrative burdens in accessing such information;

ii. ensuring that mechanisms exist to codify and widely 56 distribute this

public information (e.g., through business associations that could provide information on best practices in human resource development or new ways of organizing businesses), and that such information is not unduly protected as intellectual capital.

Participants perceived ongoing biases against small businesses in their access to capital. This problem is seen to be particularly acute where risks are high and uncertainties abound, such as in the development of new technologies or the adoption of new organizational arrangements. Possible reasons for these biases include: volatility in the small business sector that heightens the risks associated with small businesses; poor business skills and lack of planning and preparation for the start-up and growth of small businesses; insufficient cash flow in start-up or growth stages; little collateral to guarantee borrowings; lack of expertise on the part of lenders to assess the risk and uncertainty associated with small firms. There is a body of opinion which suggests that such perceptions of small business inadequacies are exaggerated, and that there are significant market failures associated with small firm financing.

To the extent that there are market failures in the provision of finance to small businesses, the following areas may be of priority:

i. ensuring that there is adequate information about the risks and uncertainties associated with small firm start-up and growth, and that lenders have appropriate training and/or specialization in assessing these risks and uncertainties;

ii. ensuring that there are appropriate kinds of risk capital and other forms of patient capital geared to small firm financing;

iii. ensuring that regulations do not unnecessarily hinder the access of small businesses to expertise or information on sources of finance.

Focus Group Results

Focus group participants identified problems related to financing, training, and marketing as the main areas of challenge for SMEs. Since individual small and medium-sized firms constitute a very heterogeneous group, the challenges they face vary. For example, the nature and extent of the problems faced by these firms often depends on whether they are new firms concerned with survival or existing firms concerned with growth. In addition, the particular concerns of SMEs will often be sector-specific.

There was no consensus on whether SMEs are facing new challenges today, or whether heightened competition has simply accentuated their traditional challenges. It was argued that economies of scope are becoming more important than economies of scale. In the past, firms needed to be large to exploit economies of scale; now, small firms may be better able to exploit economies of scope. Indeed, for the first time, SMEs may be enjoying a size advantage. On the other hand, intangible investments such as those in marketing, human resource development, and product development are becoming more important determinants of economic growth, and small firms are thought to underinvest in these areas.

Another important constraint for small firms is their inadequate ability to make use of information; even when they are given access to the required information, many lack the time and skills to use it strategically.

Financing

Access to capital has been a recurring theme in discussions specific to SMEs, but there was no consensus on whether this is a significant new or changing problem. Some claimed that problems in getting access to seed financing

remain important; in particular, high threshold equity levels set by financial institutions may discriminate against ventures which do not necessarily require high levels of equity. In addition, access to capital was seen as problematic for firms that want to expand but lack the asset base to support further debt financing.

In part, the financing problems faced by SMEs stem from poor business skills or lack of planning. On the other hand, lenders may lack the appropriate training or skills to properly assess the particular needs of small firms. The latter problem is potentially important for firms with intangible investments that financial institutions may have difficulty evaluating. It was also suggested that some countries need to change their tax policies to enable small firms to retain a greater proportion of their profits.

Some solutions are beginning to emerge from private lending institutions. For example, the Canadian Imperial Bank of Commerce has announced the creation of a $100-million equity fund to provide venture capital financing of up to $250,000 to early-stage, knowledge-based businesses that are poised for growth and expansion. In addition, venture capital groups are emerging which provide SMEs with full-service support systems (e.g., by helping them establish their operations and develop needed skills).

Training

Concerns were expressed over wages and working conditions in small firms. In addition, human resource development issues have been identified as important for "new" firms trying to become "growing" firms. However, employer-led training in many countries appears to be dominated by large firms, as small firms lack the time or resources to undertake training. Indeed, since large firms strongly influence the nature of the services provided by private sector training institutions, it is not clear that these institutions can be expected to adequately meet the needs of SMEs.

Marketing

In an environment of increased global competition, small firms are finding it difficult to gain access to different markets. In many cases, small firms do not even know who their competition is. This poses particular problems in terms of obtaining market information, including price information. Again, lack of management time was identified as an important constraint on small firms' ability to deal with strategic questions. It was suggested that SME challenges in penetrating markets may be partially compounded by large firms, whose risk averse nature discourages them from doing business with their smaller counterparts.

The Needs of Small Firms

Participants agreed that there is a need to better meet the information requirements of SMEs, whether related to financing, marketing, training, or other issues. This was seen as particularly important for firms trying to grow, as they often require the same range of knowledge larger businesses already possess. At the same time, it was noted that the information needs of small firms should be met in a manner which recognizes the severe time constraints of SME managers.

In order to deal with time constraints, SME owners must first realize that they cannot do everything themselves - they need to let others get more involved in the business. These "others" - whether other owners, bankers, or consultants - can provide the expertise needed tomeet the challenges the small firm is facing. Thus , SMEs should be encouraged to seek out and buy knowledge. On the other hand, those selling knowledge should also be taught to gear their services to the particular needs of small firms.

Sectoral infrastructures, such as industry associations, may be important vehicles for helping SMEs reconcile their information needs with their time constraints. In many cases, the problems of SMEs are sector-specific, and not necessarily associated with their size. Sectoral infrastructures may be better placed to supply the information that SMEs need, particularly information related to marketing, technology, and human resources. They may also be better positioned to implement the training infrastructures needed to encourage SMEs to invest in their human resources.

From a public policy perspective, it makes sense to foster the development of sectoral institutions. In the context of declining budgets, government support to groups of firms may be more cost-efficient than support to individual firms, where larger investments are needed to make a difference. Governments also have a role in meeting the information needs of small firms by diffusing information on best practices and by encouraging SMEs to invest in intangible assets (such as their human resources) for long-term profitability.

Focus Group 3

Temporary Employment Agencies: Short-Term Fix or Long-Term Solution?

Chair: Gregory Wurzburg, OECD

There is strong evidence, in case studies and some survey statistics, that temporary employment is increasing because it provides firms with more strategic and operational flexibility. This trend has been aided by measures to relax restrictions against temporary employment in countries where it has been heavily regulated. By means of temporary employment, and the complementary practices of outsourcing and subcontracting, employers can acquire greater numerical and functional flexibility, giving them access to the particular skills and competencies they need, when they need them.

However, it is argued that temporary employment can have social costs, to the extent that it allows firms to externalize certain non-wage labour costs associated with benefits received by permanent employees. Thus, temporary workers may lack access to employer-provided health care and pension benefits, as well as training. Should temporary employment become more widespread, and large numbers of individuals never have access to certain benefits, it is possible that a new class of workers will emerge - one that is genuinely disadvantaged in the areas of health care, pension benefits, and skills updating and upgrading.

Thus, there are risks associated with temporary employment. Eventually, there may be fiscal consequences, if the potential costs of more widespread temporary employment lead to increased dependency on the state. There is a more immediate risk that temporary employment will contribute to a deterioration in the skills and competencies of temporary workers. This will increase the risk that such workers will experience higher rates of unemployment and lower earnings. It will also undermine the sustainability of temporary employment as a mechanism allowing employers to have just-in-time access to qualified workers.

How real are these risks? That depends on a number of factors, such as the extent to which temporary workers eventually find permanent employment, and the extent to which temporary employment agencies provide at least some of the benefits commonly associated with permanent employment, such as training.

It is difficult to get a clear picture of these risks from labour force statistics. Definitions of temporary employment can be ambiguous; data do not indicate whether temporary workers are hired through temporary agencies. Details on

the kinds of benefits provided to temporary workers, either by those employers who hire them or by temporary agencies, can only come from detailed firm-level analysis, which remains rare.

Focus Group Results

The move towards temporary employment contracts, resulting in the casualization of some types of labour, is viewed by some as the "under-belly" of high performance workplaces. In other words, while these arrangements may respond adequately to employer needs for a flexible workforce, they may not afford workers the protection and support needed to weather gaps in employment. In the long run, temporary employment arrangements may, in fact, run counter to the desire for a more flexible workforce, if they create pockets of workers with narrow skill sets and fewer means of acquiring the new or broader skills necessary to increase or maintain their employability.

The vice president for the Canadian operations of Manpower Inc. presented views on temporary employment from a firm perspective.

In the United States, 26 percent of the labour force is contingent, consisting of both part-time workers (16%) and flexible workers (10%). Workers with a broad array of skills are using temporary employment services to gain access to jobs, particularly at the entry level.

Temporary employment firms tend to pay their temporary workers at a rate that is 5 to 8 percent below scales for similar core workers.

Some temporary employment agencies provide a bundle of benefits, including training, that was described as competitive.

Some temporary employment firms have a long-term outlook on their training costs, viewing them as investments. These firms must invest in training in order to have a supply of skilled workers to offer the market. They do so while recognizing that significant numbers of their workers will find permanent employment in the firms in which they are placed. Indications are that some 60 percent of temporary workers choose to be hired through a temporary agency because of their need for training. These workers may view work that is brokered through an agency as a stepping stone to a more stable career. In the current downsized environment, outplacement firms and temporary agencies are collaborating on an ad hoc basis to provide skills training that can result in more permanent re-employment for displaced workers.

From the perspective of other firms, hiring workers through a temporary agency is a low-risk way of recruiting workers who may eventually become full-time, permanent employees.

Conclusion

Temporary employment is more important to overall employment in some member countries than in others. At least initially, temporary employment contracts appear to be a reasonable way of matching any short-term skill demands of employers. However, the impact of the brokerage of these jobs through employment services on long-term human capital development is simply not known at this time, and will require better data and further study.

Previous | Table of Contents

Return to top of page